New feature:
the week in gold

EXECUTIVE INTELLIGENCE REVIEW

February 13-19, 1979

Mexico's challenge to Carter

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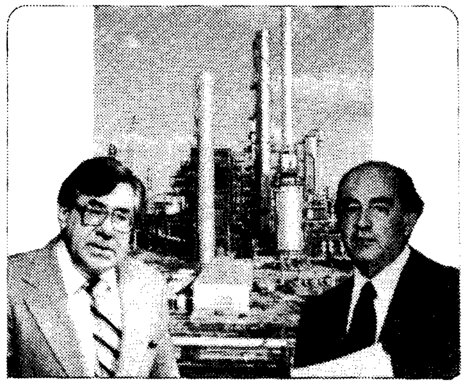
EXECUTIVE INTELLIGENCE REVIEW

Mexico's challenge to Carter



On Feb. 14, Mexico's President Jose Lopez Portillo has the thankless task of receiving the flushed, Teng-brainwashed Jimmy Carter on a state visit to Mexico. From all indications, the visit will be a head-to-head clash between Mexico's desire to use its newfound oil wealth for industrial development, and Carter's policy — authored by Zbigniew Brzezinski and James Schlesinger — that Mexico abandon any plans for industrial development. This week's SPECIAL REPORT analyzes the Carter policy and traces the steady decline in U.S.-Mexico relations and U.S. business opportunities it has produced, and contrasts to it the potential for trade with Mexico if that nation's development plans proceed. Plus: excerpts from Lopex Portillo's Feb. 5 speech laying down Mexico's approach to U.S. relations, and an interview with EIR editor in chief Fernando Quijano Gaitan. **page 8**

Cover: Mexican President Jose Lopez Portillo (r) and Foreign Minister Santiago Roel, who will lead the Mexican reception of Carter and his entourage. In the background; a Mexican oil refinery.

EXECUTIVE INTELLIGENCE REVIEW

IN THIS ISSUE

The week in gold

Kicking off a new, expanded ECONOMICS report, this week's EIR brings you the first of our regular, weekly Gold columns, plus a map of recent fluctuations in gold prices, and additional columns on Foreign Exchange, Credit Markets, Trade, and more. In coming weeks: more price and gridded information on currency fluctuations and major trade deals in the offing. Also in this week's report, the inside story behind the panic conditions on the markets this week, and a factual and dispassionate analysis of the real danger of an oil shortage. **page 34**

The cost of Iran

The British-inspired revolt against the Shah of Iran has cost more than just the peacock throne. Under Shah Pahlevi, Iran had one of the developing sector's model industrial development programs, and, particularly, one of the most significant nuclear energy programs in the developing sector. The turmoil in Iran, and the possibility of implementation of the Ayatollah Khomeini's program of oil cutbacks and deindustrialization, has cast doubt over an array of development projects involving most of the leading industrial nations. Our ECONOMIC SURVEY this week analyzes the cost and consequences. **page 41**

THIS WEEK

SPECIAL REPORT

INTERNATIONAL

Vol. VI, No.
February 13-19, 1979

Europe counters U.S.-China insanity

Leaders of the European Monetary System are mounting an effort to halt the Carter Administration's push toward nuclear confrontation in the wake of the Teng Hsiao-ping visit. But the signs so far are that Washington isn't listening. In our INTERNATIONAL REPORT this week: statements by both European and East bloc leaders warning against the war course, statements by Carter spokesmen brushing off the warnings, and excerpts from Henry Kissinger's touted Economist interview calling on the West to develop a first-strike capability. Plus: U.S. Labor Party Chairman Lyndon H. LaRouche analyzes why Europeans think the U.S. has gone insane, and a speech by a West German official in Moscow disavowing any intention by his nation to play a "China card." **page 21**

COMING NEXT WEEK

An Economic Survey of Nigeria, and a report on developing Africa's population for advanced industrial labor; who is behind the forces of the Ayatollah Khomeini in Iran; and a report on the China trade bubble.

EXECUTIVE INTELLIGENCE REVIEW

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really negotiated at the July 1978 Bremen and Bonn summits of industrialized countries . . . and how the European Monetary System launched at Bremen was *modeled* on a 1975 proposal by the American political economist Lyndon H. LaRouche, Jr. as the "seed-crystal" of a new, development-oriented world monetary system . . . how the United States can get into this system and out of the depression . . .

...REPORTED HOW

fusion energy researchers in the United States achieved the milestone breakthroughs reported in August, 1978 from Princeton, and what other advances are coming in this clean, cheap and virtually unlimited solution to the world energy crisis . . , how and why there was a massive sabotage attempt against the U.S. fusion program, and who's backing fusion now . . . what were Japan's and the Soviet Union's offers in 1978 to the USA for joint fusion R&D.

...DOCUMENTED

what's behind the world outbreak of terrorism . . . the names of the global networks that deployed both "left" and "right" terrorism to kill Juergen Ponto, Hanns-Martin Schleyer, and Aldo Moro—and plan an even bigger terror wave for the United States . . . Executive Intelligence Review provides the first-hand documentation from the world's press, including accurate translations from non-English sources, showing how continental Europe, Japan, the East bloc, the Arabs and developing sector countries are seeing and acting on events.

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China threatens war on Vietnam

Teng calls for "punishment" of Soviet ally

Evidently bolstered by the carte blanche provided by the Carter Administration for Peking's anti-Soviet provocations, Chinese Vice-Premier Teng Hsiao-ping used the occasion of his unofficial visit to Japan last week to threaten war against China's southern neighbor and USSR ally, the Socialist Republic of Vietnam. Vietnam should be "punished" for its aid in the overthrow of the murderous regime of Cambodian dictator and Peking client Pol Pot, Teng blustered before the Tokyo press on Feb. 6. "We've warned (the Vietnamese) on countless occasions (that) ... the Chinese are a people who act on their word."

Teng's threats were backed up with a reported massive Chinese military build-up on China's southern border with Vietnam. According to well-informed sources, some 10 Chinese divisions (100,000-150,000 troops) are massed along the border, and the Chinese are feverishly constructing airfields and logistical infrastructure in preparation for a possible attack. Heavy artillery, tanks, and jet fighters have been moved into the area and a top Chinese general, a veteran of the Korean War, has been announced as the commander of the southern forces.

Vietnamese diplomatic sources indicate that they fear a strike into Vietnamese territory. For the moment, however, they believe that the Chinese activity is calculated to add "increasing pressure" on Hanoi. China's "pressure tactics" against Vietnam have included daily incidents of Chinese armed incursions into Vietnamese territory, and attacks against small Vietnamese villages and military positions along the border. The Vietnamese sources said that they are "ready for the worst" and indicated their forces have been placed in a state of total mobilization and preparedness for a Chinese attack.

Soviet counterdeployment

In the view of seasoned observers, the Chinese leaders, and Teng in particular, were so bolstered by American acquiescence to their aims that they may well risk an adventure in Vietnam. The Chinese may only be restrained by the fear of a Soviet countermove in defense of their Vietnamese allies. Reportedly, two Soviet naval task forces have deployed into the waters off Vietnam, one placed off northern Vietnam and the other, which includes heavy cruisers, off the southern coast. A buildup of Soviet forces in the border areas with the Chinese province of Sinkiang has also been reported. Sinkiang is the heart of China's nuclear weapons facilities.

No doubt Peking is still stinging with the humiliation of China's ouster from Cambodia. The Vietnamese have proved to be a tough obstacle to Peking's designs to dominate Southeast Asia as "China's natural sphere of influence." Vietnamese sources reveal that Teng himself traveled to Vietnam following the 1965 U.S. escalation there, and told the Vietnamese that if they cut off all ties to the Soviet Union, China would take care of them. The Vietnamese pointedly refused this "offer," although it was repeated several times, backed up by Chinese-U.S. collusion to force a settlement creating a de facto permanent division of Vietnam with an anti-Soviet, and pro-Chinese, 'neutralist' government taking over South Vietnam.

Isolation of Khomeini crucial to world peace

With the return of the religious opposition leader Ayatollah Khomeini to Iran, the political crisis there enters a new and delicate phase. If Premier Bakhtiar is not successful in his intensive efforts to split Khomeini's camp, which is officially opposed to the Bakhtiar government, and reach a peaceful compromise with moderate opposition elements, Iran will soon be embroiled in a brutal civil war. Coupled with the serious instability in Pakistan following the upholding of the death sentence against former Prime Minister Zulfikar Ali Bhutto and the war build-up between Vietnam and China, the so-called "arc of crisis" surrounding the Soviet Union which U.S. security chief Zbigniew Brzezinski has been promoting would become an awesome reality.

The response of the Soviets toward Carter foreign policy since the visit here of Chinese Vice Premier Teng Hsiao-ping has been verbally hostile. The announced departure of U.S. Defense Secretary Harold Brown to four Mideast countries this week to discuss a pro-Western military alliance against "communists" has only further blackened the image of Washington in the eyes of our western allies and Moscow. The first ever trip to the Mideast by a U.S. Defense Secretary, Brown is seeking military alternatives for maintaining the U.S. military dominance in the region that it once had in Iran.

The potential for peace in Iran

A series of far-reaching initiatives have been taken by Bakhtiar over the last week to overhaul Iranian foreign policy as it was determined by the Shah. Bakhtiar announced Iran will withdraw from the British-established Central Treaty Organization (CENTO), a non-functional military alliance with Pakistan and Turkey. He has dramatically trimmed Iran's $12 billion military budget and announced a full takeover of Iran's mammoth oil industry from the British Petroleum-dominated consortium of oil companies. He also announced that the hated secret police SAVAK has been dismantled.

Such moves are hints of the policies a democratic republican government analogous to that of the former Premier Mossadegh will enact if there is a peaceful compromise worked out between Bakhtiar and Medhi Bazargan, Ayatollah Khomeini's chief negotiator and newly named premier for the Ayatollah's Islamic Republic. Well-informed Iranian sources report that Bazargan and Bakhtiar are lifelong friends who are working closely with moderate religious leaders and military leaders to reach a peaceful solution and, probably, form a new government. The key figure in such a strategy is the powerful General Djam, who could command the respect of the restive Iranian military.

If Djam accepts a role in a new compromise government based on the 1906 constitution, the chance of its surviving is good, and the economically troubled Iran could then begin pumping its oil into the world markets. But if these delicate negotiations fail, and the radical elements around Khomeini gain the upper hand, chaos will ensue. The current situation is to a great extent being shaped by two contending factions of French intelligence. Bakhtiar and Bazargan are working closely with the traditional prodetente Gaullist faction, and Khomeini's "maoist" radicals such as Abdul Bani Sadr and Ibrahim Yasdi are working with a French intelligence network controlled by British intelligence and traditionally linked to terrorist controller Jean Paul Sartre.

The coming days should reveal which of the two wins out, and what is the future course for Iran.

— Judith Wyer

Wall St. Journal feeds dollar panic

The Wall Street Journal, self-proclaimed champion of truth, justice, and the American business way, this week emerged from its telephone booth showing its true colors: the shocking pink of the London Financial Times. In its Feb. 6 lead article, "Skeptics Abroad: Dollar Defense Moves Fail to Allay Doubts of Some Foreign Aides," the Journal fights bravely — to create a panic run on the U.S. dollar, based on its claim that America's foreign allies are all ready to sell the dollar down the river.

Trouble is that in a tour of a dozen foreign finance ministries, the Journal's staff was unable, despite insistent questioning, to solicit exclamations against the dollar. "Generally, their answers were carefully phrased to avoid shaking the market confidence" in the U.S. currency, the unsigned article complains, confidence "that unexpectedly developed during much of last month. But even so, their replies were perceptibly heavier on hopes than on predictions," the Journal staff says wistfully.

For example, the best the staff could elicit, after intense harassment from West German Finance Minister Hans Matthöfer was an irate "I never say anything detrimental about the dollar." The Journal was forced to print this, and call it defensive; they were quick, however, to totally delete Matthöfer's recent hour-long speech to the New York Council on Foreign Relations which we reported last week. Before a stunned cross section of New York's banking elite, Matthöfer staunchly supported a global version of the European Monetary System for the Eurodollar market, to make the dollar, which he repeatedly referred to as "undervalued," **the currency of international development.**

The interviewers left no stone unturned — ignoring statements by the Swiss central bank and the office of West German Chancellor Helmut Schmidt that the U.S. "fully recognizes its obligation" to defend the dollar, but they did find a dollar detractor in Saudi Arabia: Morven Hay, at the Saudi National Commercial Bank. The Journal editors pointed out, however, that he was a British national.

Undaunted, the Journal interviewers went to the extreme of dragging into print the one actual government official whom they could find willing to go on record against the U.S. currency: M.G.R. Sandberg, Chairman of the Hong Kong & Shanghai Banking Corp, central bank for the import of drugs into the U.S. on behalf of the British Crown Colony of Hong Kong. Sandberg, who has not permitted his quotation in the press in 30 years, was staunch: the dollar's recent strength is only a product of "self-feeding optimism," he warned.

Gardner interferes in Italy

Last week we reported on U.S. ambassador to Italy Richard Gardner's statement that the European Monetary System must be subordinated to the International Monetary Fund, and his threat to destabilize Italy if the Communist Party were allowed to enter the Andreotti government. The Oxford-trained Gardner, who helped precipitate the fall of the government by the latter threat, has now intervened once again into Italian affairs, by giving an interview to the Milan daily Corriere della Sera, Feb. 4, in which he said that Italy must accept a stand-by credit from the International Monetary Fund, hold down the cost of labor, reduce worker mobility, and stop government interference in the industrial sector, in order to maintain technological exchange agreements with the U.S.

Behind the brash — and offensive — Gardner interventions is a fight over whether Italy will proceed with its intention to join the European Monetary System, or revert to its frequent role as an ally of British financial forces on the Continent. The interventions by Gardner come as Italian Prime Minister-designate Giulio Andreotti begins a process that has taken place 41 times since the end of World War II: consultations with the major parties for the purpose of putting together a new cabinet. The penalty for failure is something no sane Italian wants: special elections to break the present deadlock between the two biggest parties, the Christian Democrats (DC) and the Communists (PCI). Regularly scheduled elections won't occur until 1981; early elections would mean a still longer period of chaos and an effectively nonexistent government.

Ostensibly at issue between the PCI and the Christian Democrats is the Communists' demand to be represented in the new cabinet, a demand which the DC has always in the past found some way of avoiding through political compromise. The PCI at this point, however, has been provoked into intransigence on the question — which leaves the party leadership vulnerable to the sort of posturing which found its latest expression in an editorial in the party daily L'Unità of Feb. 6. PCI Directorate member Alfredo Reichlin blames the spread of the "male oscuro" — the mysterious virus which has killed 56 infants in Naples — on the state industrial holding company IRI, the banks, the government — in short, on capitalism. This despite the editorial one day previously in the same newspaper by the party's number two man, Gerardo Chiaromonte, who said that the PCI would "never do (its) enemies the favor" of "dreaming of a socialist Italy, or predicating the revolution, (while being) incapable of ... fighting concretely to transform reality."

The DC is showing signs of even more severe schizophrenia. Party general secretary Zaccagnini has won a majority for the line of the late Aldo Moro, the "emergency policy" of national unity and cooperation with the PCI. The so-called "friends of Zaccagnini," supporters of this policy, met on Feb. 4 and released statements aimed at mollifying the Communists. DC party "Foreign Minister" Luigi Granelli warned of the serious consequences of a situation in which either the PCI or the DC was forced to the opposition, and urged a re-examination of DC methods and policies.

The intervention of Gardner into this delicate situation is intended to freeze the two sides' negotiating positions, undermining the chances for Andreotti to find a governmental formula based on cooperation with the PCI that will allow him to continue his own pro-EMS policies, and opening the door for a pro-IMF government more to Gardner's liking.

The cost of policies such as those espoused by Gardner is already being paid by the residents of Naples who have lost 56 infants to the "male oscuro" — the "incurable" dark disease as it has been dubbed. The epidemic is now spreading south, aided by the wretched nutrition and sanitation conditions in the backward Mezzogiorno.

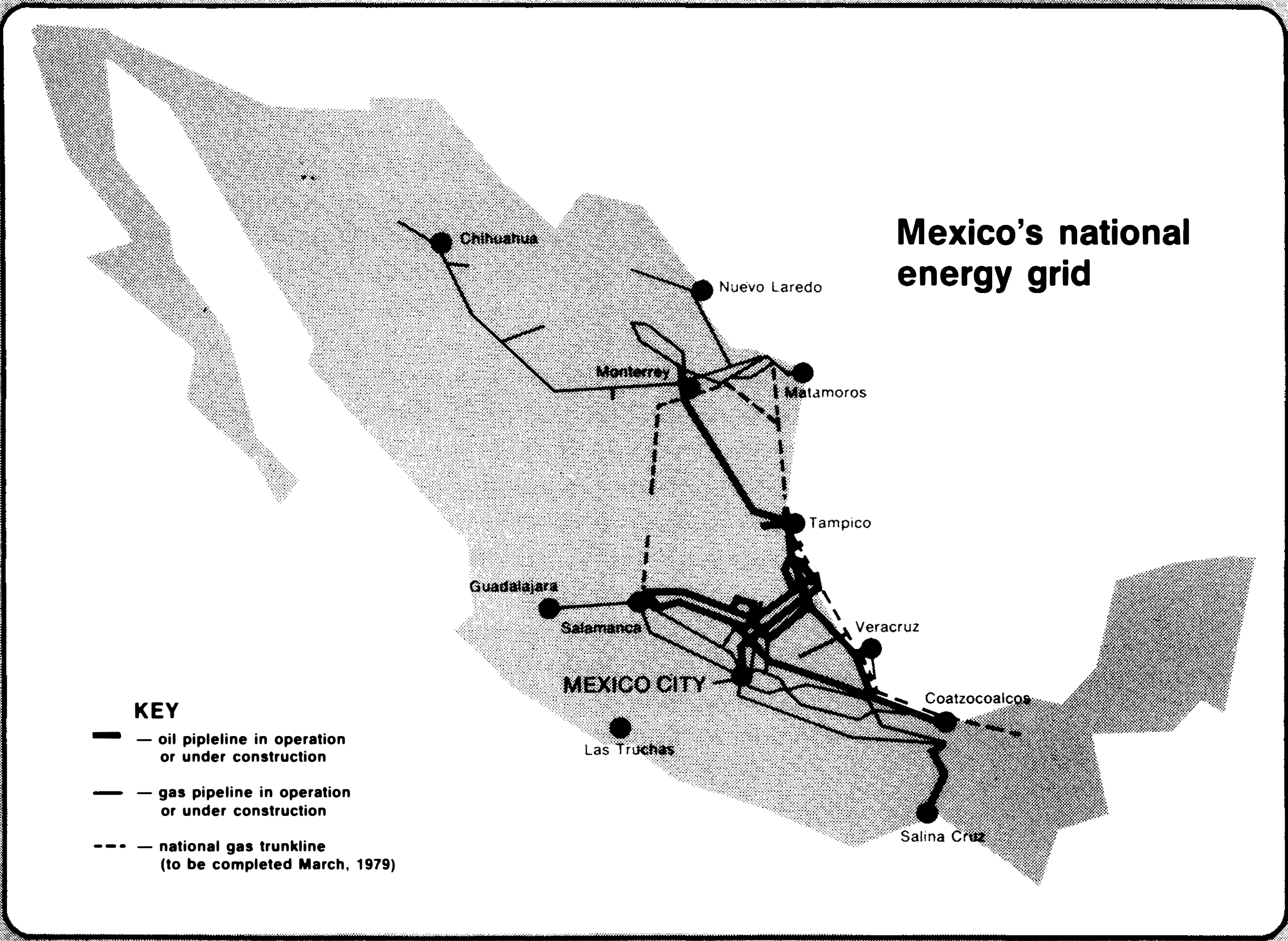
Mexico's challenge to Carter

In this section:

- Mexican President Lopez Portillo's speech on the Carter visit to Mexico on Feb. 5, the anniversary of Mexico's constitution.
- A grid of Carter's Mexico policy since his election in 1976.
- Report on the Mexican economy, and what U.S. businessmen can expect as Mexico's industrialization plans move forward.
- An interview with EIR editor Fernando Quijano Gaitan on U.S.-Mexico relations.
- Excerpts from the speech by the trade counsellor for Mexico's Washington embassy, Alfredo Gutierrez Kirchner, at the EIR seminar on "Doing Business in 1979" in Washington last week.

Speaking to the Second Meeting of the Mexican Republic on Feb. 5, the anniversary of the adoption of Mexico's 1917 Constitution, President José López Portillo declared in emphatic terms that his nation will proceed as planned with its oil-for-development policy, and will play a leading role in industrial development for the entire developing sector. President López couched his speech — delivered to an elite government assembly composed of Mexico's governors, Supreme Court justices, cabinet ministers, and members of Congress — as a direct challenge to U.S. President Jimmy Carter, who arrives in Mexico for a state visit on Feb. 14 flushed with the madman's "success" of the Teng Hsiao-ping visit, and stuffed, according to all public indications, with a policy authored by Zbigniew Brzezinski and James Schlesinger that calls for Mexico to abandon its industrial development plans and cede control of its oil wealth to the U.S. for Anglo-American geopolitical provocations and incorporation into Schlesinger's planned "U.S. strategic reserve."

López's forceful stand places Mexico on a collision course with the Carter Administration, and in the forefront of



international efforts to restore a semblance of reason and sanity to Washington policymaking. In this Special Report, we report on the opportunities which will be available if — contrary to the Carter Administration — Mexico succeeds in its development plans, and we review the history of deteriorating U.S.-Mexican relations under Carter. Following: excerpts from President López's Feb. 5 speech.

Lopez: Mexico won't accept arbitrariness

Today I speak to you in the presence of and before the conscience of the Republic, in this year that already foreshadows what the Mexico of tomorrow will be, a Mexico open to the world, that increasingly participates in the world.

Let us understand, and let us grow accustomed to, the idea that — due to reasons of geography and resources — Mexico will acquire an increasingly important role in the history of humanity. Without patriotic or chauvinistic distortion, Mexico will achieve, whether we want it or not, whether we are aware of it or not, increasing importance. We must be prepared to project our particularities as universalities....

Mexico is the prow, not the stern, sirs; Mexico moves forward.

There are those who are seized with fear about upcoming visits,... frightened by the wealth that we don't yet know how to use, fearing arbitrariness or violence. To them I say: Neither Mexico as a nation, nor the world as such, is going to foster absurd arbitrariness. Violence is being eliminated. Our resources are our own, they are integral to our sense of our own nationality.

This nationality — I've said this many times, but it's pertinent to repeat it now — is delineated in that marvelous Article 3, the essence of our constitutional philosophy:

> "We are Mexicans, who — without narrowness or hostility — are resolved to set forth our own problems, and solve them with our own resources, based upon our own identity, constantly striving for political and economic independence."

We have unearthed extraordinary resources, with unquestionable importance for the world. We are conscious of this reality; it involves no mystery; we will solve our problems with our own resources.

I promise you, representatives of the Republic, thus will we maintain our economic independence and political independence. Let us have no fear of contact. We know what we want. Mexico today knows where it came from, where it is now, and where it wants to go.

You have heard, from among yourselves and from my collaborators, about the current situation of our Republic. We have ideas, ideas and plans. Consistent and structured plans capable of responding to the problems we confront.

And here before you, Governors, I want to declare that the use of our resources — and here I'm referring exclusively to our oil resources — will only be made for the purposes of the national interest; only that which serves the country; never distortions due to bilateral greed. Mexico will use its resources as it sees fit: exclusively for its own benefit. I am sure national unity will support this goal.

Only a higher, collective and generally observed reason could cause Mexico to deviate from or add to its oil production program. World opinion allows us to consider energy as the patrimony of humanity — to the extent we are all obliged and committed to consider it so by a new economic order — from the production process, through distribution to consumption. What we cannot allow is that specific interests disfigure systems of production. These systems belong to, and are at the service of, their respective nations. To the degree that we establish a higher order, we will try to agree on solutions to the energy supply needs of all countries, strong or weak. To us there is no difference between the needs of one or the other group. (But) only to the extent that a new system establishes these principles for everyone will we allow ourselves to participate in higher systems of production. This is my commitment to you.

...We of this generation have before us a great historic responsibility: to build a better Mexico. We are at a watershed. I call on the whole Republic to stand steadfast behind its institutions, its convictions and its actions.

It was like today governors and representatives of the legislative and judicial powers, that on the 5th of February (1917) our Republic met together. May it always remain united!

Carter's record on

United States-Mexico relations under the Carter Administration have been marked by steady deterioration. The reason: in contrast to oil-rich Mexico's own industrial goals, Carter policymakers such as Zbigniew Brzezinski and James Schlesinger view Mexico as a southern neighbor which must be kept in subservient backwardness as the United States' backyard.

Mexico's "friend" in an apparent bid for Mexican-American votes in 1980 — is promoting U.S. efforts to channel Mexico's oil wealth into labor-intensive "appropriate technologies" while absorbing the greater part of Mexican oil into the U.S. strategic reserve.

Given Mexico's commitment to industrialization, how do these deindustrializers hope to win? There are, of course, many pressure tactics. But the major one is the plans for **sealing the U.S.-Mexico border.** The pretext will be stopping the "hordes" of Mexicans looking for jobs in the U.S. — jobs made scarce in Mexico precisely by the anti-industry policies of Schlesinger, Brzezinski and Kennedy.

Sealing the border — a measure borrowed straight from Nazi Germany — would indeed create great social pressures within Mexico.

But if Schlesinger and Co. believe that this would guarantee their "Iran" scenario in Mexico, they are quite mistaken.

For one thing, unlike Iran, Mexico has a deeply rooted tradition of popular republican government which makes destabilizations of the present government far less possible than of the authoritarian Shah.

And Mexico has a major international alternative to the U.S. for cooperation in its development plans. When French President Giscard d'Estaing arrives in Mexico Feb. 28, two weeks after Carter, he comes as head of the EEC and top representative of the European Monetary System (EMS). Unlike Carter, who has yet to dispatch any ranking official to Mexico to prepare economic accords in advance of his trip, Giscard has sent his Industries Minister, the head of the Latin American division of the French nuclear program, and his Foreign Trade Minister, Jean Deniau (twice), to prepare his. Deniau is well-known as the sponsor of a proposal to create a $100 billion fund, linked to EMS facilities, for financing European and Third World development projects involving advanced technology.

Below, we review step by step the downward slide in U.S.-Mexico relations since Jimmy Carter's election in 1976.

1976-1977

December 1976: A preview of Carter Administration policy toward Mexico is provided by Harvard University professor and Carter advisor, Daniel Bell. In an interview with the French weekly L'Express, Bell states: "Mexico is a country with a formidable demographic explosion.... The U.S. cannot absorb illegal immigrants anymore. An explosion can appear on our southern border which would force Carter to pull back certain units from Europe."

The same theme is also sounded by F. Ray Marshall in his

Mexico policy

first policy statement after nomination by Carter as Labor Secretary: "Maintaining illegal foreigners out of the U.S. Market" is "a prerequisite for reducing unemployment."
Feb. 1, 1977: In the midst of the U.S. winter gas shortage, President López Portillo offers Mexican natural gas to help relieve the U.S. shortage. Although the amount of gas exported over an existing pipeline which had previously been used to import gas from the U.S. is very small, it is a gesture of good will by the Mexican government.

It is during this same period that López Portillo and his cabinet meet with a delegation of U.S. businessmen, a meeting which calls for establishing "a new era in relations," with U.S. businessmen assuring Mexico a "strong flow of U.S. capital to Mexico."
Feb. 13-15, 1977: López Portillo travels to Washington for a three-day visit — President Carter's first meeting with a foreign head of state since taking office.

The New York Times covers the visit in an editorial calling on Mexico to "channel oil money to labor intensive projects."

Washington sources close to the López Portillo-Carter meeting report that National Security Advisor Zbigniew Brzezinski demanded that Mexico (1) give U.S. oil corporations drilling rights for the offshore oil deposits; (2) that Mexico reduce its public spending (as demanded at the time by the International Monetary Fund), and (3) that Mexico implement measures to reduce its population growth and the flow of undocumented aliens to the U.S. In return, the U.S. would offer to help Mexico renegotiate its foreign debt — one of Mexico's most urgent short-term problems.
March 23, 1977: New York Times economic columnist Leonard Silk discusses how Mexican oil should be used as a "strategic stockpile" against the Organization of Petroleum Exporting Countries.
May 1977: Mexico's Industrial Minister Jose Andres de Oteyza responds to the U.S. pressure: "Mexico will not yield to any international pressures regarding the sale of its oil.... Mexico is not willing to commit its oil to the U.S. in exchange for financing received through the good graces of that country."
June 1977: On a more positive note, the joint communiqué issued by the yearly U.S.-Mexico interparliamentary meeting calls for a "war on drugs."

At the same time, the head of Mexico's national oil company, Jorge Diaz Serrano, announces that Mexico "is eager to sell much more of its oil to the U.S." and proposes the construction of a gas pipeline from the oil regions to the U.S. border.
Aug. 6, 1977: President Carter, nevertheless, proceeds to formally present his program for stopping the flow of "illegal" aliens into the U.S. from Mexico. His program, to be presented to Congress, calls for intensified policing of the border, penalties on employers hiring illegals, and a limited amnesty program for illegal aliens already in the U.S. This would create a new status for workers who have been in the U.S. for the past five years, allowing them to remain temporarily, while limiting their access to public services.

The ruling party in Mexico, the PRI, delivers the government's response to the Carter "illegal aliens" plan with a strong denunciation calling Carter's program a "flagrant attack on the universal policy of human rights."
Aug. 10, 1977: In an interview with Mexican daily Excelsior, the Director of the Immigration and Naturalization Service, Leonel Castillo, warns that the deportation of "illegals would destabilize Mexico — provoking a revolution." The same day the New York Post reports that the White House office of Drug Abuse directed by Peter Bourne proposes the establishment of a "superagency for policing the border" with Mexico which would coordinate the efforts of all border-related agencies.

In his first State of the Union address, President López Portillo responds sharply to the Carter illegal aliens plan, stressing that the solution must be economic, "not a police solution."
October 1977: A spokesman for the Ku Klux Klan in San Diego announces that the KKK will begin to patrol the border to stop the immigration by Mexican workers into the U.S.
Oct. 22, 1977: Illinois Senator Adlai Stevenson III, calls on Congress to veto a $500 million dollar credit package for Mexico arranged through the Export-Import Bank, $360 million of which has been slated for the construction of the U.S.-Mexico gas pipeline.

In an interview with the Executive Intelligence Review, a spokesman for the office of Senator Stevenson reveals that the Senator's objection to the Eximbank credit for Mexico — allegedly over Mexico's asking gas price — was prepared "solely" in coordination with the Department of Energy "to give Schlesinger more leverage" in forcing Mexico to lower the price.

Oct. 29: Pemex Director Diaz Serrano blasts the U.S. Energy Secretary James Schlesinger for his threat of deploying a "mobile intervention force" into oil producing nations. Diaz warns that such an action would lead to "interference in Mexico's oil resources."
November 1977: Schlesinger sends his Assistant Secretary for International Affairs, Walt McDonald, to Mexico to sabotage ongoing gas negotiations between Pemex and six U.S. gas companies. Since by law the Energy Department is only empowered to review energy import contracts after they are signed, Schlesinger arranges for State Department representatives to be included in the delegation.

The head negotiator for the gas companies, Tenneco's Jack Ray, sends immediate telegrams of protest to both Schlesinger and Secretary of State Vance, indicating that until the contract is signed, the government has no role in the negotiations.

The following week, the State Department summons representatives of the gas companies to Washington which, according to reports, are bluntly told "Why do you want to sign a contract which the government is going to reject?" When the companies insist they would not break their understanding with Mexico, the State Department official pressures the gas companies to prolong the negotiations beyond the cut-off date of Dec. 31, which is the deadline Pemex set for a contract.

Despite this, the gas companies and Pemex proceed to complete their negotiations. By Dec. 12, a contract is ready to be signed.

Schlesinger responds by summoning Foreign Minister Santiago Roel and Pemex director Diaz Serrano to Washington for a face-to-face meeting, Dec. 21. In this meeting, Schlesinger adds insult to injury by putting pressure on the Mexican officials on other bilateral issues such as the illegal aliens question.

Dec. 22, 1977: By instructions of López Portillo, Pemex notifies the U.S. government and the six gas companies that Mexico is withdrawing from negotiations and will not extend discussions beyond the Dec. 31 deadline.

1978

Jan. 21, 1978: The Department of Energy threatens to embargo uranium purchased by Mexico from France and sent to the U.S. for enrichment. It is to be used in Mexico's first nuclear plant built with General Electric technology in Veracruz.

Jan. 25, 1978: Vice-President Walter Mondale makes a visit to Mexico in efforts to reopen discussion of the gas pipeline, and is told by López Portillo that the price "is not negotiable." While in Mexico, Mondale proposes that credits be funneled through the World Bank for labor intensive agriculture projects, as the sole focus of Mexico's development effort.

In an interview with Executive Intelligence Review, Ana Gutierrez, assistant director of the White House Domestic Council under Mondale responds that, "The illegals program is not negotiable.... There are some things they (Mexico) may not like but that's too bad...."

March 8, 1978: Mexican Foreign Minister Santiago Roel presents a formal protest to the State Department over a blockade of the border by members of the miniscule "American Agricultural Movement" (AAM) protesting exports of Mexican food items to the U.S. For several days the AAM successfully blocks several border bridges with several demonstrations ending in mass arrests and scuffles with the police.

March 17, 1978: Another fringe lobbyist group joins the attack on Mexico. The National Organization for the Reform of Marijuana Laws (NORML) begins a campaign to force Mexico to stop the use of paraquat for the eradication of drug cultivation.

April 29, 1978: López Portillo delivers an unequivocal statement on the natural gas negotiations, stating that "Mexico has decided to use up all its natural gas in the development of our country and if we export anything at all, it will be the fuel oil which we will substitute with the natural gas itself."

May 5, 1978: U.S. Secretary of State Cyrus Vance begins a two-day visit to Mexico, but no substantive discussion or official statements are reported in the press. Vance does not respond to proposal made prior to his visit by Mexican Finance Minister David Ibarra that a $15 billion fund for financing transfer of technology and capital goods to the Third World be established.

July 1978: Senator Edward Kennedy and the U.S. Zionist lobby begin a campaign demanding that the Carter Administration reverse its position on the gas pipeline negotiations so that Mexican oil could be used to "bust OPEC." Kennedy introduces into the Congressional Record an editorial page feature from the Washington Post which calls for precisely this strategy. This is clearly reflected in a number of statements from top Zionist lobby spokesmen — like the American-Israeli Public Affairs Committee.

Late August 1978: The Kennedy crew, through an article in the New Republic, proposes the elaboration of a Presidential Review Memorandum on Mexico and appointment of a "special negotiator" with Mexico in order to line up Mexican oil in a "bust OPEC" strategy.

Sept. 1, 1978: To answer Kennedy, Mexican President López Portillo announces during his State of the Union address: "We are not now, nor will we be, scabs against OPEC."

Oct. 7, 1978: Sources confirm that the National Security Council has begun work on such a memorandum with the selection of a team to work as a task force.

In an address to United Press International editors, López Portillo again calls on the U.S. to join in the fight for establishing a new international economic order.

Oct. 25, 1978: López Portillo begins an important trip to China and Japan; the Immigration and Naturalization Service announces the construction of an "impenetrable fence" along key sections of the U.S.-Mexican border. The Mexican press says it "will be very much like the Berlin Wall."

Oct. 28, 1978: President López Portillo responds to this threat, from China, when he says, "I hope this discourtesy is not implemented."

Late November 1978: Carter is asked in a press conference about the furor caused by plans to build new fences at various points in the border. The President surprises the audience by asking, "What fences?"

Dec. 7, 1978: Carter tells an astonished press conference that in his February trip to Mexico he expects "to conclude, hopefully, these continuing negotiations" on Mexican gas imports which Schlesinger had stopped more than a year before.

Dec. 15, 1978: The Washington Post discloses sections of the Presidential Review Memorandum (PRM)-41, which calls for using Mexico to bust up OPEC, working out an "oil for aliens" deal, and a Canada-U.S.-Mexico common market. The Brzezinski-authored document openly discusses the fact that "there is little danger that Mexico will become overtly hostile... unless we attempt to seal the border."

The publication of the PRM-41 is met with a flurry of articles in the U.S. press praising the document as Brzezinski's softline approach to Mexico.

Dec. 20, 1978: The House Select Committee on Population releases for publication a document which details the most drastic recommendations for dealing with illegal aliens ever issued publicly by any branch of the U.S. government. The head of the Committee, Rep. James Scheuer (D-NY) in an introductory letter to the report calls for a "firm, hard sealing" of the U.S.-Mexico border.

Jan. 17, 1979: At a press conference Carter endorses Schlesinger's "hard-line" position on the question of Mexican gas imports, since "in the immediate future, there is no urgency about acquiring Mexican natural gas."

Jan. 22, 1979: At Joint Economic Committee hearings, Schlesinger tells Mexico to go slow with its energy development since "we have seen what happens with too rapid development in Iran."

— *Pablo Silva*

What awaits Carter in Mexico

"This is a country with a surging population which provides an extraordinary market for U.S. technology and capital goods. It has big oil and gas reserves and is developing them rapidly. It has a nuclear program ready to absorb U.S. technology. All signals are 'go' for a vastly upgraded relationship of mutual benefit."

Is this a State Department briefing on Carter's visit to Mexico next week? No. It's a stripped down summary of the Carter Administration's hype for China, drummed into the ears of U.S. businessmen and the population in general unremittingly since the Administration came up with the "China Card" in December.

A capsule briefing on Mexico from the Schlesinger-Brzezinski-Kennedy crew arranging Carter's trip would sound like this:

"We face delicate negotiations on a series of thorny problems with our southern neighbor. We want Mexican oil and gas, especially to break OPEC, but the lesson of Iran is that a country which tries to develop too fast will run a high risk of social unrest and chaos. Don't get your hopes up over any bonanza for either the U.S. or Mexico flowing from Mexico's new oil wealth."

These contrary briefings convey in a nutshell the shortsightedness of Carter Administration policy toward Mexico.

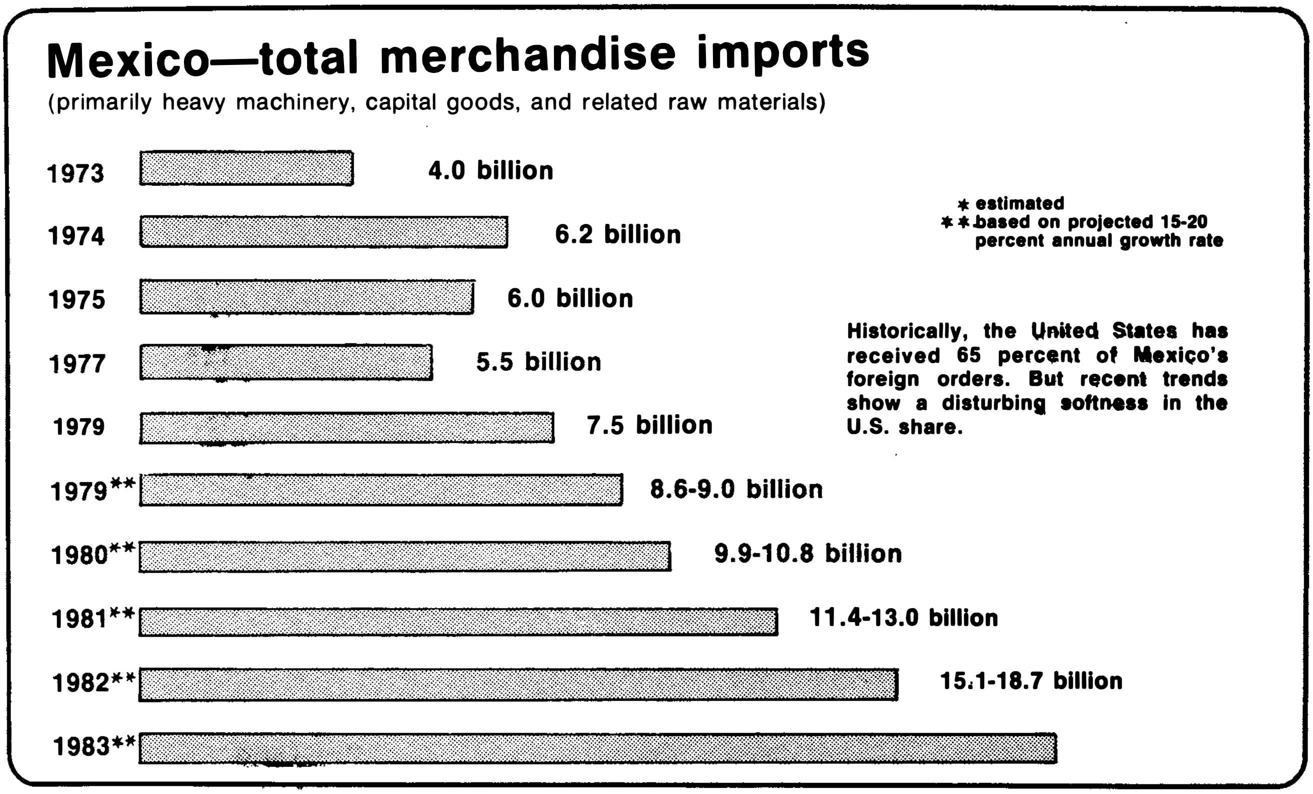
Mexican President José López Portillo will greet Jimmy Carter in Mexico next week with what he calls the "Gran Planteo," the Great Design for long-term U.S.-Mexico partnership in Mexico's gigantic nation-building tasks. He is talking of "building the cities of the 21st century." "Think Big" is his slogan.

A country of almost 70 million people with Saudi-sized oil reserves saying "think big" should be enticement enough for an export-hungry U.S. This publication estimates capital goods demand in Mexico over the next ten years will total a minimum of $80 billion; total imports over the same period a minimum of $200 billion.

But a U.S.-Mexico relationship based on "oil for technology" becomes merely the model example of a new North-South relationship generally which will multiply these hefty market figures many times over.

Against this, what is the China Card? A joker. Despite public relations efforts to conjure visiones of "hundreds of billions" of U.S. exports, the market is going to be nothing like the guaranteed opportunities waiting for U.S. business and industry south of the border.

China has no domestic statistics of any reliability. There are no elaborated development projects even on the drawing boards, let alone in the first implementation stages of many of Mexico's. And most important, two decades of Maoist "backyard furnace" idiocy, reinforcement of the most backward elements of peasant ideology, and dismantling of the university education system, have left the nation without the human resources capable of absorbing large amounts of advanced technology and carrying out rapid industrialization.



This is not to say the U.S. should overlook the market which **will** exist in China; it is only to point out the blatant deception tactics of China Card players who say Chinese trade is the only game in town.

Though there may well be increasing sales to China, and eventually a substantial market, it will be a slow process of many years. The Administration has somehow failed to inform businessmen of this fact; as it has failed to inform the U.S. population that a large proportion of Chinese imports will be paid for with with the proceeds of international dope dealing — the destruction of the minds of America's youth.

Sister Republic

There is no Third World country in a better position than Mexico to take the rapid strides in material progress and social development which are properly associated with the achievements of the United States. Mexico, like the pre-environmentalist era in the U.S., is a republic committed to industrial progress, and that is a fact of profound significance.

Alone of Latin American republics, Mexico fought a revolution 70 years ago to become a modern industrial state. Its 1917 Constitution embodies this commitment. In some regard, it is more advanced than the U.S. Constitution it is modeled on. Article 3 states explicitly that the republican and democratic form of government must be premised on the **constant advance in living conditions and education of the population.**

Mexico spends a larger percent of its federal budget than any other country in the world on education. It spends one of the smallest on military expenditures.

Mexico has a leadership not merely upholding this tradition but deepening and extending it. It can count on channels for instilling nation-builder conceptions into mobilized, politicized peasant and worker sectors unmatched elsewhere in the Third World where the "peasant problem" remains culturally almost impenetrable. The López Portillo leadership has launched a far-reaching political reform program — opening greater political opportunities for parties outside the ruling Institutional Revolutionary Party (PRI) — in order to revivify these channels.

Speaking to an assembly of education ministry workers recently, the city-builder President of Mexico stated emphatically: "the rural areas are no longer a solution. We must prepare ourselves to absorb (the rural population) in the activities that are only offered by the city.... We are committed to solving the problems" involved in city-building and providing services to a rapidly-growing population, "and will succeed." The basis of the effort? "The human, technical and economic resources of the country," and "Article 3 of the Constitution."

U.S. role in Mexico's industrial boom

On Jan. 4, Mexican President Lopez Portillo told reporters that his nation will only increase oil revenues as it has the capacity to "digest" them in development projects. The New York Times and the Financial Times of London interpreted the remark to mean that Mexico will put a freeze on oil development after it reaches its 1980 goal of 2.25 million barrels per day (bpd).

In fact, the President's remark was an invitation for foreign partners to help Mexico speed up the design and execution of its development projects — and thus speed up the rate of oil production.

The Executive Intelligence Review presents here a prospectus of what the U.S. stands to gain if it pitches in to help — and not hinder — the creation of a "Japan south of the border."

Parameters of trade

U.S. exports. At a time when the U.S. balance-of-trade continues deep in the red due primarily to a decline in exports of manufactured goods, the coming Mexican import boom to fuel its development looks good indeed.

To start with current trade figures: in 1977 Mexico imported a total of approximately $5.5 billion, overwhelmingly heavy machinery, raw materials, and capital goods. It exported some

The rundown on Mexico's economy

The following figures on the positive rate of growth of almost every aspect of the Mexican economy during 1978 explain why the government of President Lopez Portillo asserts that in order to solve its longstanding social problems, Mexico will double its industrial plant by 1982. The government's full industrialization plan, to be released shortly, will detail more precisely how this goal will be achieved. The Mexican economy grew in 1978 as follows:

Population growth

The rate of population growth maintained a steady 3.5 percent, bringing total population to 65 million. Unemployment for the 17 million-member workforce varied between 10 and 20 percent, and 30 to 40 percent of the labor force was underemployed. The Gross Domestic Product, moving toward the $100 billion mark, grew at a 5.7 percent rate last year, double the previous year's. The inflation rate was controlled at 15 percent and the floating exchange rate was maintained at a rate of 22.6 pesos to the dollar.

$3.7 billion, largely oil and agricultural products. In 1978 both imports and exports increased substantially, approximately $2 billion in each category.

And this is only the beginning of a takeoff in trade. Fig. 1 shows estimates for import growth over the next five years, projected at a hefty 15 to 20 percent yearly, and reaching over $15 billion by 1983.

The United States has traditionally been Mexico's biggest trade partner, involved in 65 percent of all trade transactions. Mexico is the U.S.'s fourth largest trade partner. But in the absence of a strong "oil-for-technology" education and export stimulus program in the U.S., these percentages have begun to slip. First-half figures for 1978 showed Mexican imports from the U.S. at 54 percent of total imports.

Capital goods. The heart of Mexico's import program is capital goods. This is not only because Mexico has maintained tariffs against foreign dumping to protect domestic consumer goods manufacturers (many of which represent coinvestment with U.S. firms). More important, it reflects Mexico's total commitment to in-depth industrialization based on its own creation of a capital goods industry. That is, a large percentage of the capital goods Mexico stands to import are going to be the **capital goods it requires to produce capital goods**. That is a sophisticated market, one which will bolster a corresponding core element of American industrial production.

The chief architect of Mexico's drive for a domestic capital goods industry is in an eminent position to do something about implementing it. He is David Ibarra Muñoz, now Mexico's finance minister.

In April of 1978 Luis Almeida, the Director of Programs for Mexico's national development bank, Nafinsa, estimated that Mexico's capital goods demand for the next 10 years would total $45 billion. Based on the surge in oil reserves announced in the course of 1978 and corresponding declarations from government officials of revamped development goals, Executive Intelligence Review, now estimates capital goods demand at a **conservative** $80 billion for that period.

Typical of the considerations figuring in the dramatic upscaling of demand was the November announcement of the gigantic Chicontepec oil field in the old Golden Lane area stretching south from Tampico. Pemex director Jorge Diaz Serrano detailed that Mexico will drill 16,000 wells in this field, estimated to contain 106 billion barrels of oil, over a 13 year period. The price figure for the resulting demand for drilling equipment, pipelines and storage was conservatively set by the oil company director for this field alone, at $5 billion.

The Pemex expansion is at the heart of Mexico's confident move into domestic capital goods manufacture. But the market is too large for even the fastest domestic expansion of capital goods production. A Mexican congressional leader in mid-January estimated that fully 50 to 75 percent of Pemex equipment needs will be imported in 1979. Given a 1979 Pemex budget of close to $10 billion, most destined for expansion activity, big imports will continue. Reports that a Texas-based group of drilling equipment manufacturers have landed a $5 billion multi-year contract with Pemex confirm the dimensions of the market.

Petrochemicals and the nuclear industry

The oil extraction industry is only the beginning of the import demand boom. Production of basic petrochemicals, under Pemex control, is slated to rise from 4.9 million tons in 1976 to

Industrial and farm output

Total industrial output in the first three quarters of the year averaged 11 percent growth. Oil production jumped up an outstanding 25 percent. Other industrial areas took substantial steps forward: steel grew 8 percent, building and construction materials grew 8 percent; basic chemicals grew 7 percent; motor vehicles grew 10 percent; electricity output grew 10 percent.

Farming products output showed approximately 4 percent growth. Grain production increased 10 percent, and farm exports reached $1.2 billion. Imports totaled $620 million. An important new area developed by the government was fishing, with an increase of 25 percent to a total value of $486 million.

Debt and the budget

The foreign trade deficit in 1978 was estimated $2.5 billion. Total public foreign debt is $26 billion, and private approximately $12 billion, with gross payments of $9 billion ($4 billion net) for 1978. The 1979 budget was announced at $56.6 billion, 20 percent larger than the previous year, from which oil investments through the national oil company Pemex will get $9.4 billion, or 39 percent of total investment.

Oil production and earnings

Total oil production at year-end 1978 was 1.5 million barrels per day (bpd), with exports of 500 million bpd. This is expected to rise to 1.9 million bpd in 1979 and 2.25 million bpd in 1980, with exports of 717,000 and 1,100,000 bpd respectively in those years.

The total export earnings from oil and gas are estimated to rise as follows: 1978: $2 billion; 1979: $3.7 billion; 1980: $8 billion; 1983: $11 billion.

21.7 million tons by 1982 — an increase of over 400 percent. The number of petrochemical plants will almost double, from 60 to 115. Some of these, such as La Cangrejera in the Tehuantepec area, are among the largest petrochemical complexes anywhere in the world.

The nuclear industry is another startling example of expected growth. Mexico, set to begin construction on its first nuclear plant, the twin reactors of Laguna Verde on the Gulf coast, in 1982, has just passed enabling legislation to broaden and accelerate its nuclear effort. Government plans call for 20 nuclear reactors by the year 2000. France, Canada, the Soviet Union, Japan, and Sweden are all now in line negotiating different aspects of nuclear collaboration with Mexico. This is a market worth $5 to $10 billion over the next ten year period. But U.S. "antiproliferation" legislation has so far succeeded in totally freezing the U.S. out of the running.

Four poles of development

From the base in such areas as oil extraction, petrochemicals and the nuclear industry, the need for capital goods and heavy industrial production fans out into almost every other major sector of the economy, multiplying the opportunities available for U.S. high technology manufacturers. Mexican government planners have designated four port industrial complexes to be "poles of development" for industrial expansion nationwide (see map). These are Tampico, on the northern gulf coast; the Coatzacoalcos-Minatitlan complex to the south, adjacent to the prolific Reforma fields; Salina Cruz, across the Tehuantepec Isthmus from Coatzacoalcos, on the Pacific coast; and Las Truchas, up the coast from Salina Cruz, in Michoacan state.

These "industrial port complexes," as Industries Minister Oteyza has called them, are each designed to include petrochemical or fertilizer production and be fed with natural gas from the nation's ambitious gas distribution grid. The southern two ports, Salina Cruz and Coatzacoalcos, are conceived as the anchors for an industrial corridor stretching in an arc from the Isthmus of Tehuantepec over to Villahermosa, capital of oil-rich Tabasco state.

This corridor is already the home for the bulk of the country's refining and petrochemical capacity. Ten new petrochemical installations are soon to be inaugurated. Projected to unite the two anchoring superports is a high-speed electric rail line, first proposed in 1975 and to cost half a billion dollars. It is designed to replace the Panama Canal for certain kinds of cargoes. An oil pipeline from the Reforma fields to Salina Cruz is well along to completion. It will deliver oil for embarcation to Pacific markets, particularly Japan. Japan has contracted to import 20 percent of Mexican exports as of 1980, 220,000 bpd, in exchange for capital goods and other development aid. It is putting $1 billion plus into the financing of the port facilities and related infrastructural projects.

By the end of the century, the corridor's currently sparse population — less than a million — is expected to increase tenfold.

Further up the Pacific coast, the Las Truchas development will be centered on one of the largest steel complexes in the world. Its first stage, completed in 1975 by the government of Luis Echeverría at a cost of $1 billion, raised national steel capacity by over 2 million tons per year. The second of its three phases, price tagged at $3 billion, has been held up by International Monetary Fund strictures. The Japanese are now discussing financing with Mexico to get the project underway again. Upon completion of all three phases, production will reach 10 million tons — surpassing total capacity nationwide today.

The steel will serve as the basis of a major shipbuilding project, as well as heavy machinery manufacture and capital goods production. All products — from raw steel to finished machine goods — are expected to be placed on the international as well as the domestic markets. The population of Las Truchas will climb to several million by the late 1980s.

The industrial port of Tampico will develop on the basis of oil refining and petrochemicals, according to the "pole of development" plans. The discovery of the adjacent Chicontepec field has spurred the prospects for an industrial renaissance in this old oil center.

To attract a wide range of secondary petrochemical plants to these four poles of development, the government has extended a substantial 30 percent discount on raw materials from Pemex's "upstream" basic refineries, as well as discounts on fuel and electricity. Secondary petrochemicals, unlike primary, are open to private investment. Foreign companies are welcomed as 40 percent minority investors in these enterprises. The prospects for shifting over to large-scale export of Mexican petrochemicals in the coming period are excellent.

Farm mechanization

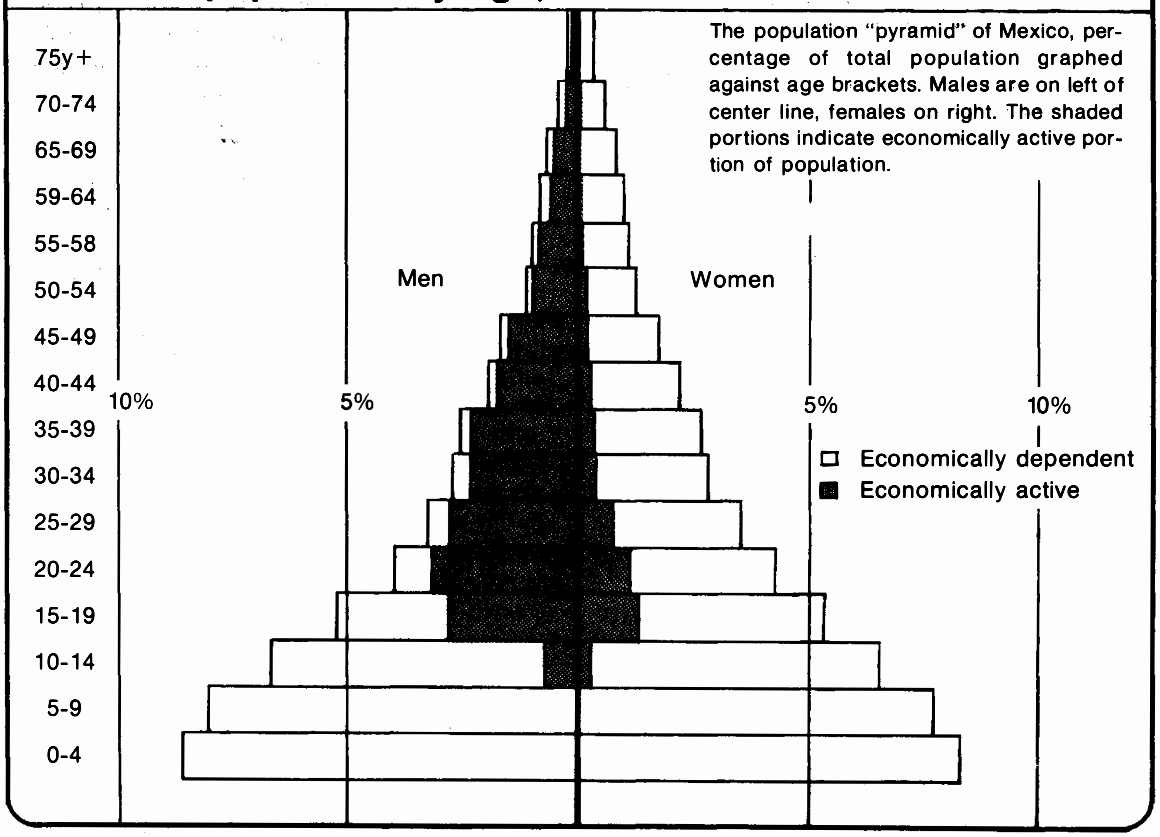
While Mexico's energy and petrochemical industries will provide the core demand for U.S. capital goods and technology exports during Mexico's industrial boom, the farm sector must not be discounted as a significant factor in U.S. export plans.

Last fall the Mexican agriculture and agrarian reform ministries released a National Program for Agricultural Mechanization. "Faced with the need of intensively developing a program to permit the mechanization of Mexican agriculture in the short term, it has been determined that the stock of tractors must increase by 60,000 above and beyond current domestic production," the report stated. Domestic production can provide only 10 to 15 percent of total needs. That is an increase of almost 50 percent over total existing tractor stock of 115,000 units and almost 70 percent over serviceable units, estimated at 92,000.

The government immediately began negotiations with three U.S. firms — International Harvester, John Deere, and Massey Ferguson — for purchase of 10,000 units at a total price of $200 million. If the entire 60,000 unit program moves ahead during its five-year lifetime, U.S. manufacturers could win contracts worth over $1 billion.

These tractor purchases are in turn only one element in the mechanization plan. And domestic manufacture stimulated by the program will require capital goods imports further up the line.

Mexico's population by age, 1970



Mexico's greatest resource: its population

Ask most Mexican observers what they view as Mexico's greatest problem and they chorus: "the exploding population." They add: "The overwhelming unemployment problem will not be relieved by the relatively few jobs created in the capital-intensive oil industry."

The truth is exactly the opposite. Not only is Mexico's surging population its greatest resource, but the capital-intensive industrial boom now underway will create the high social productivities and capital formation rates which will spread millions of skilled jobs throughout the country in interlinked paths of expansion.

As can be seen in the accompanying chart, Mexico's "population pyramid" is swollen at the bottom; over half the population is under the age of 18.

This places an enormous burden on Mexico's educational system. But if the challenge of educating and training this coming adult generation is met, then Mexico will have solved the most important bottleneck it faces in its race to become a First World nation by the year 2000: that of skilled manpower to run the advanced technologies of its surging industry.

Education has historically been accorded the largest share of the Mexican budget. Today one classroom is built every hour. The Council of Science and Technology, under presidential directive, has recently drawn up an ambitious four-year plan to upgrade research and development programs across the country and direct university research toward national development goals.

To promote across-the-board upgrading of labor skills, the Mexican Congress last year passed, on executive initiative, an amendment to the Mexican Constitution decreeing that the right to job training was constitutionally guaranteed and protected.

The U.S. has a key role to play in aiding Mexico's education and training efforts — an opportunity for the U.S. less widely recognized than the obvious opportunity for export of capital goods and technologies, but a dollar and cents question nevertheless. U.S. consulting and technical firms have a lot to gain if they "think big" about exporting U.S. training programs to Mexico and about establishing expanded training programs with Mexican participation in the U.S.

— ***Timothy Rush***

EIR editor on U.S.-Mexico policy

Just two weeks before Jimmy Carter's official trip to Mexico, more than 50 representatives of U.S. energy, industry, and politics and of a host of foreign governments gathered at the Madison Hotel in Washington, D.C. for a seminar on "Doing Business in 1979 — the European Monetary System and Mexican Oil," sponsored by the Executive Intelligence Review. Among the speakers was Alfredo Gutierrez Kirchner, Minister of Commercial Affairs for the Mexican Embassy in Washington. (For excerpts from Gutierrez Kirchner's remarks, see page 19.)

In his presentation to the seminar, EIR editor-in-chief Fernando Quijano Gaitan scored the Administration's antidevelopment posture toward Mexico as dangerous in the extreme, and a disaster for the U.S. economy and for America's relations with the Third World and Europe. The Washington seminar was the third in a series, following similarly well-attended meetings in Houston and New York.

EIR editor-in-chief Quijano gave this interview to New Solidarity International Press Service following the Washington seminar:

NSIPS: The EIR has consistently been harshly critical of the Carter Administration's attempts to force no-growth economics on Mexico, and of the Administration's refusal to take up the peace and prosperity offers of the new European Monetary System and its world development program. How would you evaluate the significance of your magazine's seminar and the response it drew now, so soon before Carter's Mexico trip?

Quijano: I think it's tremendously significant, first of all because there is now a set and open policy in and around the U.S. Administration to recreate the Iran crisis in Mexico. Just a week earlier, Energy Secretary Schlesinger told the congressional Joint Economic Committee that the U.S. should not expect to get any great amount of oil and gas from Mexico, and then raised the Iran specter with threats about the social upheaval caused by too-rapid development policies. But obviously a strategy of suppressing Mexican development and throwing the country into chaos is in nobody's interest — except the Schlesingers, Brzezinskis, Kennedys, and Kissingers who want the most murderous austerity for the Third World and all-out confrontation in the advanced sector. Exactly the same is true of the EMS issue: Brzezinski and the rest are preventing U.S. participation in complete contradiction to the national interest.

Not surprisingly, there is powerful, if still unfocused, opposition to this. First of all there are the people who are most directly linked to the U.S.-Mexico gas deal that Schlesinger sabotaged last year. Then there is a broad range of industrial and financial interests, plus political forces ranging from Chicano groups to offices on Capitol Hill to America's foreign allies around the world. And that's who is coming to these seminars. They are basically in agreement with the EIR's view, namely that the U.S. should aid Mexico's development because it represents a potential bonanza for both sides. After all, Mexico is already saying it needs $80 billion worth of plant and equipment and other capital goods over the next 10 years for its development plans, much of it imported or import-related. And Mexico has made it clear it wants to give many of those orders to the U.S. — if the U.S. is willing to fill them.

NSIPS: Who attended the Washington seminar?

Quijano: A number of gas and other energy firms, including several oil majors and minors, sent representatives, as well as several important capital-goods firms. In addition to participants from the Mexican Embassy and from the embassies of Ecuador and Peru, Ivory Coast, and Korea, there was also a representative from the East German Embassy and a Soviet trade official, which indicates the very immediate strategic importance of the Mexico oil issue. There were also plenty from the U.S. government: from the Departments of Energy, State, Agriculture, Commerce, and Treasury, as well as several congressional offices. I think it's also noteworthy that there were members of three important national Chicano groups in attendance, from the League of United Latin American Citizens, the National Council of La Raza, and Jobs for Progress/SER.

NSIPS: What's your reading of the impact in Mexico of what you and the EIR are saying?

Quijano: I've been in Mexico several times in the last few months, and I've met with immense and persistent interest there concerning our seminar series. This is to be expected, because Mexico is looking at the U.S. political scene very closely to see if and where there are forces that can counter the U.S. Administration by expressing the real interests of the U.S., and pushing for a mutually beneficial development relationship with Mexico.

This has been reflected particularly clearly in the Mexican press. Here in the States our three seminars have so far been covered only in the regional press — not a word in the New York and Washington, that is the national, media. In Mexico it's radically different. Not only was there a lot of press coverage before the seminars started, but the Washington seminar, for example, was covered by six major national dailies.

Some of that coverage was taken from a United Press International wire story filed by UPI's Latin American desk chief in Washington. But that UPI wire was, as far as I know, not picked up anywhere in the U.S. And I think it's obvious that this isn't because of lack of interest, since the U.S. press has been crammed with "leaks" from Brzezinski, Kissinger, and so forth about the Mexico oil story as they want it covered.

NSIPS: Can you summarize what you presented at the seminar?

Quijano: I reported on my extensive travels in Mexico and on the Mexican's current development plans, which are gigantic in scope. Moreover, I stressed that under world credit structures as they would operate in a European Monetary System geometry, those development plans would be even greater, far beyond the $80 billion I mentioned earlier, once North-South relations were really geared to development and broken away from the International Monetary Fund debt repayment über alles that is killing the Third World now. In Europe and Japan there is tremendous excitement about what Mexico's planning, and Mexico looks to them right now as its best allies.

NSIPS: **How did the seminar participants respond?**
Quijano: As at our other seminars, there were first of all many specific questions from the energy people on our estimate of what the possibilities are for getting the big U.S.-Mexico gas deal back on track, and how the meeting between Carter and López Portillo will affect that. More generally, there were questions and comments again and again along the lines of: what you're saying makes such obvious sense — why the hell isn't the U.S. taking up what Mexico and the Europeans are offering?

This shows very powerfully how vital it is that a real American policy emerge, with the support of business, minorities, and labor, and that's how those questions were answered. The Administration's current policy has nothing to do with America's interest — the City of London's "geopolitics," war, destabilization, but not America's interest. What's needed — and quickly — is for that interest to express itself with real political force.

The Kennedy problem

NSIPS: **Earlier you made special note of the Hispanic-American groups present. How did they respond?**
Quijano: Their presence was very, very significant. Here was a seminar titled "Doing Business," and yet we drew representatives from the whole spectrum of these groups. It's an indication of the excitement that this issue and what the EIR is saying about it has generated in the Chicano community.

It's my view that much of the Chicano leadership, which in toto, is very small compared to the Hispanic community as a whole — and I'm excluding people like Cesar Chavez who have so discredited themselves that no one regards them as part of that leadership — finds itself in a problematic situation that can be summed up in one word: Kennedy. A large segment of the Chicano community is still very favorable to Kennedy and to Kennedy-style politics. And this continues to be true even while Kennedy calls for slave-labor-based "appropriate technology" for the Third World, particularly Mexico, destruction of health care, and using Mexico's oil not for development, but as a weapon against OPEC.

My estimate is that the EIR and these seminars are giving these Chicano leaders an idea of how to eradicate this Kennedy problem once and for all, by organizing Hispanic-Americans around a positive program that will show up Kennedy for the swine he is. And Chicano leaders are also aware that the Mexican government, while it may be forced to deal with Kennedy on a government-to-government basis, regards him as a great threat, if not even a greater one, than Brzezinski and the rest of the Carter Administration crew.

Gutierrez: the goal is rapid development

Following are excerpts from the speech by the Mexican trade counsellor in Washington, Alfredo Gutierrez Kirchner, to the EIR conference in Washington last week, on doing business with Mexico. Mr. Gutierrez, a specialist in economics and trade and development, has worked with the Interamerican Development Bank and the Mexican Treasury before joining the nation's Foreign Service.

A new theme of public interest appears to be finding its way through the arcane priorities of the media in this country.... It is the issue of major oil and natural gas discoveries in Mexico.

Suddenly at right and left of the political spectrum: in government, academy, business and the press a keen awareness has developed regarding my country.

...Even the National Security Council commissioned one of the top foreign policy reports, the so-called Presidential Review Memorandum number 41 on bilateral relations with Mexico.

...There is however a confrontation of opinions within the U.S. on the question of the timing for this market to be tapped. Apparently, the private sector is eager to strike mutually advantageous deals with Pemex, the Mexican State Oil Corporation, but unfortunately the Secretary of Energy has consistently opposed signed agreements on natural gas.

...But Mexico is also building expectations on account of its oil wealth. Exports are growing very rapidly and consequently the taxes on oil are the most dynamic revenue in the public finances.

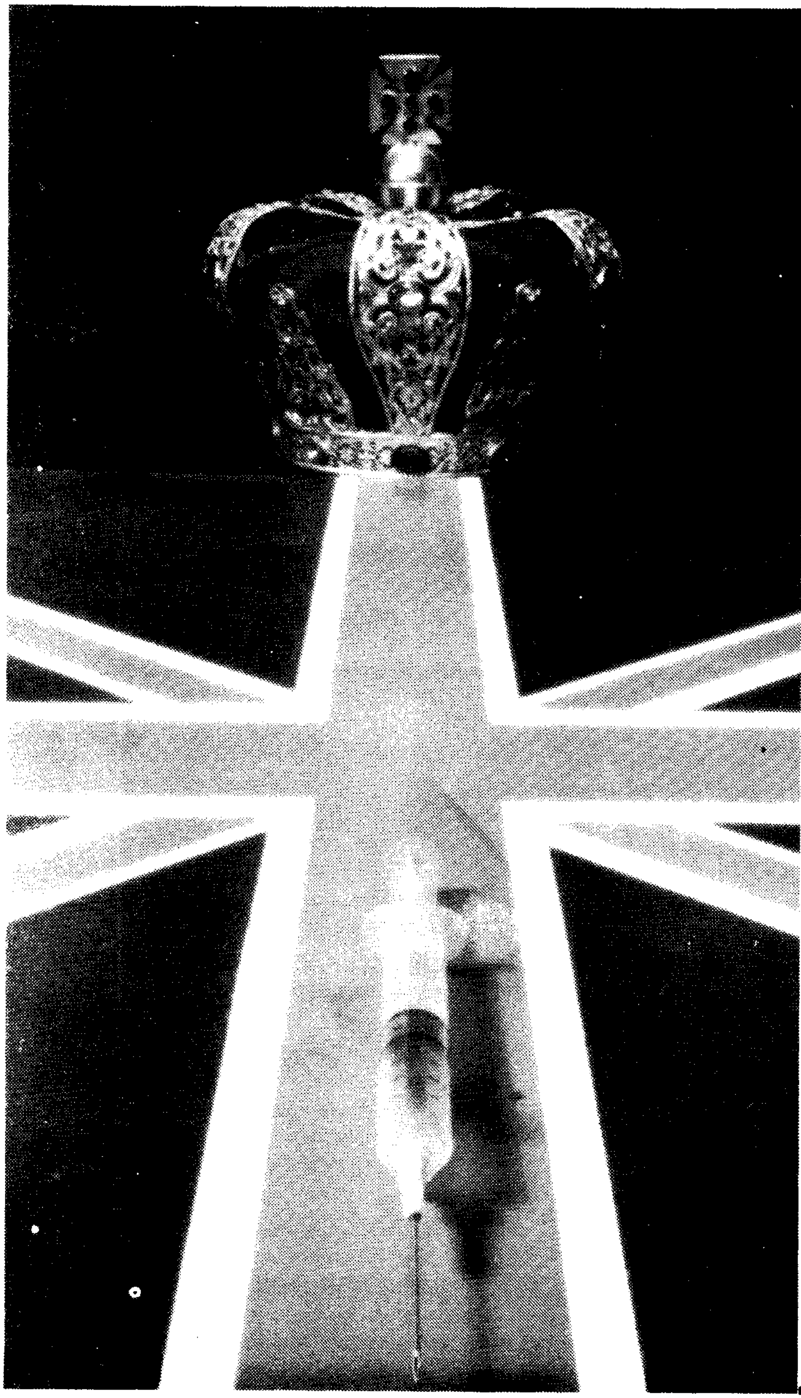
...The problem of exporting larger quantities of oil for Mexico is to transform the additional revenue in real economic and social development.

...In dealing with Mexico on oil matters, it is important for the U.S. to review the lessons of history. My country is no newcomer into the oil industry. Since the turn of the century and more specifically in the early twenties, Mexico was one of the most important oil producers.

But the main issue regarding oil in Mexico will continue to be the internal historical feeling that it is the national patrimony. That we have suffered before on its account and that we should defend this opportunity to develop or else leave the oil in the ground for a future generation to take advantage of it.

...Nevertheless we will be working towards the goal of rapid development using every tool available. A Special Fund for Employment is being set up with the revenues of oil exports, it will be called "Employment Fund" and its resources will be channeled only to investment projects.

...There is no question however, that Mexico is prepared to fulfill its obligations in a global community that needs so much cooperation, but at the same time we will demand a more balanced and equitable international economic order. Specifically we will continuously stress the importance of exchanging scarce natural resources, not only for fair prices but for a total possibility of fully developing as a country.



Europe counters U.S.-China insanity

Attempts to salvage detente, cooperation with Soviet Union

Leading European figures involved in the European Monetary System have moved over the past week to attempt to counter the war danger which has been raised by the overtly insane crisis-mongering of the Carter Administration and closely allied spokesmen such as Henry Kissinger in the wake of Chinese leader Teng Hsiao-ping's visit to Washington.

Last week, following a 12 hour emergency West German cabinet meeting coincident with the con-clusivn of the Teng visit, both Chancellor Helmut Schmidt and Parliamentary leader Herbert Wehner issued statements sharply distancing West Germany — the linchpin of NATO — from U.S. and British defense policy vis-a-vis the Soviets.

Now, in a Feb. 6 television broadcast in the Federal Republic, Wehner has explicitly countered what he identified as Anglo-American attacks on the Soviet Union by asserting that the Soviets are not an aggressive nation and do not constitute — as Teng et al. claim — a threat to peace. On Feb. 3, in an interview with Norddeutsche Rundfunk, Wehner suggested that the current deadlock in disarmament talks be resolved through the convening of summit on the level of the 1976 Helsinki conference. "It would be wrong," Wehner declared, "to wait for an MBFR or SALT II agreement.... I do not want such things to be left to world political developments, which are not very encouraging at the moment...."

Wehner's remarks were definitively supported by Chancellor Helmut Schmidt, whose press spokesman, Klaus Bölling answered criticism from the Christian Democratic Union that the parliamentary leader had spoken out of turn. "It would be very troublesome to try to find any contradiction between the conceptions of Mr. Wehner and the government on questions of security policy," Bölling declared.

According to sources in the Social Democratic Party, Wehner's initiatives represent a conscious effort on the part of the West Germans to "bring reason" to the wildly swinging Carter camp.

If Wehner and other Europeans' remarks had any effect on the Administration, there has so far been no public manifestation of that effect. Administration spokesmen this week compulsively denied that the conclusion of what the Chinese hailed as a Sino-U.S. anti-Soviet pact could have any repercussions in U.S.-Soviet relations.

Among policymaking circles associated with the Carter Administration, however, there is evidence not only that some are aware that the Administration's policy-direction is leading toward a confrontation with the Soviets, but that they are consciously preparing for it. Writing in the Feb. 3 issue of the London Economist, Henry Kissinger declared that the Soviets are achieving a first-strike capability against the West, and provocatively demanded that the U.S. respond to the threat by developing a first-strike capability of their own. At this writing, the Kissinger interview is being serialized in the U.S. press, and opposition to the Carter policy insanity is confined to regional, rather than national figures.

Commented a Vatican source: "Washington seems to have lost its sense of reality. The opening to China was too rapid and done in a way which appears to justify Soviet reactions.... " And an Italian Communist Party correspondent characterized Carter as left holding an empty bag of promises from Teng, while Western Europe considers an agreement with the USSR — on both political-military and economic issues — to be the only course consonant with its safety and interests.

What Europe said about Teng visit

Wehner blames U.S. and Britain

West German Parliamentary leader Herbert Wehner for the first time singled out the United States and Great Britain as responsible for impeding the SALT II accords and generally sabotaging the processes of detente and disarmament Feb. 6. Before a television audience, the Social Democratic Party leader reiterated the warnings he had delivered in a recent radio interview that the Soviet Union's defense policy was neither offensive or aggressive. Following are excerpts from the interview.

Question: In recent days you have said that the Soviet Union's arms potential is defensive and is not unconditionally set up for aggression. What brought you to this evaluation?

Wehner: It is my understanding that it is just not so with Soviet armaments, which are a burden for everyone, and certainly also for the people in the Soviet Union themselves. But take the comparison with those kinds of armaments that finally lead to — and here I'm thinking about 40 years ago — having people say, and in that case, people from the German side, "Massive return fire since 5:45 a.m." That was how Sept. 1, 1939 began and then that automatically rolled right into the Second World War. But, when one is not totally presumptuous, one must nevertheless say that this comparison does not fit Soviet armaments.

Question: It was reported that in a Dutch newspaper you criticized the course taken by Foreign Minister Genscher in the MBFR negotiations. You allegedly said that the Federal Republic was a delaying factor there. Was that a footnote, was it incorrectly quoted?

Wehner: That was not quoted correctly, and it was a misuse of an interview. I said that there is, when one informs himself — and many people have already said this to me — that concerning the Vienna negotiations on troop limitations, arms limitations, etc., there is information coming up again and again — for example, even from the Americans — that, of course, the Federal Republic is operating with particular reserve. There is also such information coming from the British, who say that it is the Federal Republic.

French press warns U.S.

"The Chinese Trap" being set for the U.S. government was clearly described in an article published in the Feb. 2 issue of the conservative progovernment French daily Le Figaro. Authored by a traditionally conservative, anti-Soviet commentator, Jacques Jaquet-Françillon, the article resolutely warns against the China card.

Jimmy Carter is thrashing about in the Chinese trap like a carp caught in a fish net. Teng Hsiao-ping is a charming guest who excels in verbal hyperbole when it comes to celebrating the historic conciliation between the United States and China. He is not embarrassed by as many scruples when he wants to say what he thinks about the international situation....

Here we have an official guest of the President of the United States, Vice Premier Teng Hsiao-ping, proclaiming urbi et orbi that all this (a speedy conclusion of a SALT II treaty, detente with the Soviet Union — ed.) is only illusions and wishful thinking....

While he maintains a polite reserve in his official speeches, all occasions are used since his arrival in Washington — interviews, appearances on television, talks with journalists, cocktail talk — to declare that the detente called for by his host as the primordial goal of his policy is in reality only an illusion.

One can sign as many SALT accords as one wants, this will not change in any way the real intentions of the Soviet leaders who only seek one thing, world "hegemony." And so Teng Hsiao-ping concludes that war is inevitable and there is only one way to "put the polar bear on a leash." That is a solid alliance between the United States, Europe, Japan and China....

And who are these words addressed to? Teng Hsiao-ping makes no mystery of it. To those who, in the Congress of the United States, have sworn to oppose the detente policy of the American Administration.

"There are in this country people who urge the President not to conclude a SALT accord with the Soviet Union.... These people are right!" Who said this? Mr. Teng himself.

Of course, there is nothing new in this language. Peking's leaders have often said this in the past. But the Vice Premier this time speaks on American soil, at the foot of Capitol Hill, a few weeks, or even a few days before the talks between Washington and Moscow open up again....

Could the staggering trade perspectives opening up in the Middle Empire be nothing more than poisoned bait? Can we really take the risk of falling into the trap? What is beginning to bother many Americans is that these perspectives are still very far off, and that the Chinese are asking that they be paid cash in advance on the "political" side of the contract. The Chinese will deliver later. If they don't change their minds before.

West German analyst calls Teng visit a one-man show

Approached by the Bonn correspondent for the Executive Intelligence Review, a staff member of a major West German policy institute had this to say on Chinese Vice Premier Teng Hsiao-ping's visit to the U.S. and its meaning for the Carter Administration.

Administration

Refusing to acknowledge the serious implications of allowing Chinese Vice Premier Teng Hsiao-ping to dictate U.S. policy, Administration spokesmen compulsively ignored demands for clarification or explanations from the press. Following is a grid of such interchanges.

State Department-Feb. 6

Q: What is Cyrus Vance's perception of a danger of war?
Hodding Carter III: We recognize no war danger.

State Department-Feb. 5

Q: Will you please comment on Khomeini's announcement of a provisional government?
Tom Reston: We have no position on Khomeini's announcement of a provisional government. We look forward to supporting the new government.
Q: Which new government?
Tom Reston: I will not answer that question.
Q: Do you consider the Bakhtiar government the legal government of Iran?
Tom Reston: I will not answer that question.

That was quite a spectacular show with the really active partner being Teng Hsiao-ping himself.... But the problem for the United States is that it is not able to distinguish between the new Chinese approach — the fine perspective they outlined — and basic reality.

If they come back and face reality, the U.S. will realize that nothing fruitful can come out of it. As for the perspective of industrial development, that is a chimera. China is a poor country, and its infrastructure of power is extremely unstable. Teng's visit was a "one man show." But what about the other 800 millions in China and what about Hua Kuo-feng, of whom nothing is heard anymore?

Teng does not have so much power that he can commit the Chinese to a long-term perspective for the coming five to ten years. His mass of power is extremely fragile. He is not strong enough to determine Chinese policy.

The United States should have been more cautious about that ... they should have "smelled" something.

China is not going to become a superpower for the next 30 years. It can't make and decide policy in a consequent way; that is a problem which will have to be dealt with by the next generation....

East bloc issues sharp warnings

Pravda scores China policy

In its authoritative Weekly Review section Feb. 4, the Soviet Communist Party's daily Pravda quickly dispensed with Carter Administration attempts to deny that the U.S.-China communiqué was aimed against the Soviet Union. Pravda denounced these attempts as "tricks" and warned the Carter Administration that the Soviet Union understood it was playing "no innocent game."

Pravda said further: "The Soviet public cannot close its eyes to the fact that the Peking guest in the capital was given a wide podium for slander against the USSR.

"It seems that anti-Sovietism is the basis of the 'common interests' and 'similar views' which the American-Chinese communiqué mentions. It would be very interesting to know on which concrete viewpoints the opinions of Washington coincide with those of the Peking leaders, who, as is known, demand the

closes its eyes to reality

The Office of Cyrus Vance-Feb. 6

Asked to comment on the imminent war danger posed by the Carter Administration's foreign policy alliance with China against the Soviet Union, a Dr. Calder replied, "I will not comment on anything you have said. Absolutely no comment."

White House-Feb. 5

Sam Donaldson, ABC asked White House Press Secretary Jody Powell to comment on the recent Pravda article which expressed grave concern over the fact that Teng "was given a wide podium for slandering the USSR" in the U.S. and warned the Carter Administration against thinking it is playing "an innocent game."

Jody Powell: I don't have to comment on that.

Donaldson: This is a major statement with serious charges. You should have a comment.

Powell: I don't have to comment.

NSIPS: Our allies think the President is insane. What do you have to say about that?

Powell: I think our allies are pleased with the process of normalization we are going through with China.

NSIPS: Warren Christopher has been responsible for spreading slanders against the U.S. Labor Party among leading businessmen who have worked with the Party. Your comment please.

Powell: Which business leaders would be working with the Labor Party?!

NSIPS: You shouldn't have said that. This is a Watergateable offense.

One Washington correspondent commented to the NSIPS correspondent, "I don't doubt what you say is true. The State Department was putting a lot of pressure on business over the Argentina loan denials." (Last year the State Department stalled the approval of Ex-Im loans to Argentina on the basis of human rights violations. Warren Christopher was responsible —ed.)

National Security Council-Feb. 6

Mr. Thornton, National Security Council assistant on South Asian Affairs — which includes Iran — sat in abject silence when asked to comment on the fact that his boss Brzezinski and President Carter are clinically insane.

State Department-Feb. 6

An aide to David Newsome, the head of the Iran Task Force, responded to charges that the Carter Administration is insane, by saying, "Look, you're talking to somebody involved in policy making. That means you are saying *I* am insane!"

territory of many countries, who proclaim the inevitability of war and prepare intensively for it."

Two days prior to Pravda's commentary, East German President Erich Honnecker warned, "Recent developments have brought the world to a branching point between war and peace. The Chinese are trying to provoke World War III and may do so by the invasion of Vietnam."

'China modernization a cover for war preparation'

The following are excerpts of an article, distributed by the official Soviet news agency Novosti and authored by Vladimir Potatov, Vice President of the Soviet Academy of Sciences' Far East Institute. It was published in the Feb. 1 issue of the conservative French daily Le Figaro, which has published numerous Novosti releases over the recent period. It is titled "Weapons supplies to China: the Soviet point of view."

China's leaders have posed for their country the task of making China a strong military power by the end of the 20th century.... It was towards this goal that the program of "four modernizations" was launched. Create modern agriculture, industry, army, science and technology. Practice shows that three of these modernizations — that of agriculture, industry, science and technology — serve to reach the main objective: the modernization of the army....

Some of the political figures of the West who lack foresight and who come out in favor of arms supplies to China probably believe that they will succeed in directing the Chinese expansionist spearhead in one direction only: against the USSR. This is a dangerous error! Chinese expansionism is a threat to universal peace and the security of the peoples of numerous countries. No one can ignore, for example, the hegemonist projects hatched by Peking's leaders in South East Asia.... The consequences of the policy aimed at encouraging Peking's expansionism are just as evident for Europe.

Peking's leaders continue to propagate the demented idea according to which each generation "must have its own war." Yang Yung, Deputy Chief of Staff of the Chinese army, published an article last December calling for the acceleration of modernization measures for the army, not to lose one moment, and to accomplish all preparations oriented towards an early nuclear war of great scope.

Czechoslovak commentary

In a separate commentary on China, the official Czech daily Rude Pravo compared Chinese Vice Premier Teng with Hitler. Both warned against "Soviet aggression," Rude Pravo wrote.

On Feb. 5, Rude Pravo called on the U.S. to "sharply repudiate" Teng's threat to "punish" Vietnam. If the U.S. does not criticize Teng, the paper stipulated, on this question of war and peace, this means it is encouraging him. The Czech daily concluded with the warning to the U.S. that it is being "naive" to think the U.S. pulls the Chinese string. It is the other way around. "He who thinks he can set his neighbor's house afire without being seen himself, might burn himself in the end," warned the paper.

Henry A. Kissinger: West

Following are portions of former Secretary of State Henry Kissinger's interview with the London Economist, dated Feb. 3.

Q: Do you think that there is an imbalance even in the present agreement in terms of sheer throw-weight available on both the Soviet and American sides?

A: The real issue is what the strategic forces of the two sides are capable of doing. This in turn decides the impact of military capabilities on the conduct of foreign policy and especially on the conduct of crises. I think it is generally recognized that by some time in the early 1980s the Soviet Union will have the capability to destroy with a reasonable degree of confidence most of our land-based ICBMs. In the same period of time we will not be able to destroy the Soviet ICBM force. This creates a gap in the design of the two forces that is bound to have geopolitical consequences, especially since we are clearly inferior in forces capable of local intervention....

Q: And you'd like to see that remedied.

A: I would like to set it in terms of geopolitical realities. During the entire postwar period, it is obvious that the Soviet Union has always had a substantial superiority in the capability for local intervention, in almost all crisis areas. But that was counterbalanced to a substantial degree by the strategic superiority of the United States. For purposes of this discussion, I define strategic superiority as the ability by the United States to pose a risk, or at least a perceived risk, to the Soviet Union that it might lose most of its strategic retaliatory force if it pushed a crisis beyond a certain point. This knowledge inspired a high degree of caution. ... The practical result is that in a local, regional crisis the Soviet capacity for intervention must become more politically significant than in the past. And will be perceived as being more significant. The conduct of American policy in crises will inevitably become more cautious. This is an event of geopolitical significance.

Q: Can we distinguish for a moment between counterforce capability and the capability of the United States to retaliate against a Soviet attack?

A: ... Every calculation with which I am familiar indicates that a general nuclear war in which civilian populations are the primary target will produce casualties exceeding 100 million. Such a degree of devastation is not a strategic doctrine; it is an abdication of moral and political responsibility. No political structure could survive it.

Q: Are you saying that when a SALT treaty comes to be considered, a prerequisite for its ratification by the Senate should be an increase in the United States' counterforce capability?

A: Leaving aside the ratification question, I believe this is a necessity with or without SALT. The dilemmas which I have described will not go away. I am restless when I am told that we

must arm against Soviets

will never permit our military forces to become inferior to the other side's unless it is coupled with an operational definition of what is meant by superior or inferior. Clearly, foreseeable nuclear forces are adequate to destroy tens of millions of people. The question is whether a democratic society can gear its diplomacy to such a strategy, and how we will act in a crisis if we have no other option. I have come to the view, which is different from the view I used to write about in the 1960s, that for one side to have counterforce capability and the other side not to have it (especially if that side is also inferior in forces for local intervention) must tempt a political disaster....

Q: Staying within the strategic force context for the moment, does that mean then that during the period we are talking about you can see little that meets your criterion in terms of counterforce capability?

A: Under current programs, I do not see in the period 1980-87 an according to reliable insider estimates he is optimistic that Iranian exports could resume as soon as the next several weeks. and in any case I am not a technical expert. Of the various weapons we are considering, the two that would have been most useful for a counterforce role were the MX and to a lesser extent the B-1. The B-1 has been scrapped and the timetable for the MX has been stretched out so that it is unfortunately barely relevant to the period we are talking about.

That bothers me because I also do not see an adequate development of forces for local defense by us or by our allies. Therefore the 1980s could turn into a period of great political instability. There is a growing gap between the global political alignment and its military capability. On the one hand most major countries in the world (United States, western Europe, China and Japan) will be grouped on one side and the Soviet Union will be on the other. That may well be perceived in Moscow as a potential for encirclement. But for a period of five to seven years the Soviets may develop an advantage in power useful for political ends. On the one hand the Soviets may fear that if their opponents ever get their act together they will gain a rapid advantage even in military hardware. On the other hand the Soviet Union may perceive a period in which, though its political and economic instabilities are latent but not yet overwhelming, its military power is potentially dominant. If it is not used in that period, the Soviets' long term fate is extremely uncertain. Thus, we could be heading into a period of maximum peril.

The West must face up to that danger. If it merely waits hoping for something to turn up, we will undergo a series of constantly mounting crises.

Q: We want to take you on to some of the political questions and geopolitical questions that you raised earlier. Should SALT in your view be linked to the good behavior of the Soviet Union?

A: Before I get into the question of linkage, which has developed an almost theological character, I would make a general proposition. It seems to me that the argument that SALT is so important that it is almost totally unrelated to any political conditions is extremely dangerous. ...

... I'm not saying we should link SALT to every Soviet action that we do not approve of. But we must insist that it be accompanied by general restraint.

Look at what has happened since 1975, in the space of a little more than four years: we have had Cuban troops in Angola, Cuban troops in Ethiopia, two invasions of Zaire, a communist coup in Afghanistan, a communist coup in South Yemen, and the occupation of Cambodia by Vietnam, all achieved by Soviet arms, with Soviet encouragement and in several cases protected by the Soviet veto in the United Nations. In addition Soviet advanced aircraft piloted by Soviet personnel are protecting Cuba — presumably against us — so that Cuban pilots and aircraft are operating all round Africa — also presumably against us. That cannot go on and have SALT survive. It is doing no favor to Soviet-American relations to pretend that these areas are unrelated. Sooner or later it will lead to a confrontation.

Q: Say that a senator decides in his own mind that the Soviets are not going to show restraint in the 1980s, which are going to continue, as you said before, to be a very complex time: what does he achieve by voting against ratification?

A: I think at a minimum the ratification process should be used to put the Soviets on notice that the Congress of the United States cannot accept the constant challenges to the international order. ... How that might be achieved I want to reserve for the ratification debate. The administration has an obligation not to sell SALT with the argument that by itself it will usher in an era of peace. If my analysis of the 1980s is even approximately correct, we will enter an era of grave danger. Our leaders must make this clear. I will be open-minded to the argument that we can meet these dangers even with SALT, provided the administration demonstrates that it understands the dangers, that it has a strategy for meeting them and, even more pertinent, that SALT will help in meeting them. I cannot accept the proposition that SALT removes our most probable dangers.

Q: That is going to be easier to achieve during the ratification process than afterwards, is it not? Once ratification happens — let's say for the sake of argument the Senate votes for ratification — the constraint that might exist during the ratification period on the Russians is removed.

A: But the administration has an obligation to show that it can meet the threats to our security, even with SALT, and that it, in fact, intends to meet those dangers. And therefore the administration must make it clear that the SALT process cannot survive, and that it will not let it survive, if these challenges continue.

Why Europeans think the U.S. has

1980 presidential candidate Lyndon H. LaRouche speaks out

The aggregate reactions my associates and I have received from leading and other circles in Europe and other nations outside the United States is a shocked, alarmed conviction that the Carter Administration and the Republican National Committee have both gone utterly, clinically insane.

Usually, these expressed opinions are associated with specific criticisms. Yet, after taking note of those criticisms, we are obliged to emphasize that the quality of insanity surrounding the Carter Administration is of a more profound kind than any or all of these specific issues suffice to explain.

The central point of criticism is the perception that the Carter Administration, and also the Kissinger-linked forces of the Republican National Committee, are currently in a dead run toward early general thermonuclear war. The Europeans and others are dumbfounded by this on two principal counts. First, they have no evidence that the Soviet Union has or is guilty of any policy thrust which the United States should regard as even marginally threatening to any actual U.S. strategic interests. Second, not only are these observers convinced that the U.S. would lose a general thermonuclear war conducted at this time; there is massive evidence to the effect that the U.S. Pentagon accepts more or less the facts on which such an estimate is premised.

Moscow finds itself in the position of a man holding a pistol, while a maniac, the U.S., runs toward Moscow, brandishing a knife and yelling "Kill, kill, kill!"

This criticism is linked to the spectacle of the Carter Administration's abysmal display of utter cowardice before the demands and related antics of the Peking government. Here, the Hua-Teng regime, which lacks the capability to fight a serious war, and whose present regime hangs by a frayed thread above the abyss of popular overturn of its authority, seems to intimidate Messrs. Carter et al. into submitting to its tiniest whims, whereas the same Carter Administration is manifestly contemptuous of the superior war-fighting capabilities of the Soviet Union.

Next, among directly connected issues, is the Carter Administration's conduct in Iran.

Iran, long a U.S. ally, and housing a major element of the U.S. SALT-related monitoring capabilities, was not only destabilized by Britain, with complicity of the USA, Israel, and Peking, overthrowing the U.S.'s ally, the Shah. The same Khomeini who the U.S. has insisted, on London's advice, to be a Soviet pawn, is currently receiving the backing of the U.S. government — under the guise of a U.S. anti-Soviet gesture.

The U.S. Carter Administration, formally dedicated to "human rights," has put its political-strategic forces on the side of a Peking puppet-entity, the former Pol Pot regime of Cambodia. This latter regime has perpetrated the most massive genocide in modern history, with even U.S. estimates conceding that the Pot regime wiped out at least one-third of that nation's population during its relatively short reign.

The Carter Administration, on the one side, avows that Middle East stability is vital to the petroleum interests of the U.S., as well as of Western Europe, Japan, et al. Yet, it was the U.S. which, with aid of the Aspen Institute, led the destabilization of Iran and which now projects the destabilization of Saudi Arabia.

On the strategic-economic front, the same lunacy prevails. The U.S. economy and dollar are threatened with a "Crash of 1979," the worst collapse in modern U.S. economic and monetary history. The economic cause for this — as distinct from monetary considerations coordinated from London — is a galloping, two-digit inflation. This inflation is caused largely by the shrinkage of the percentile of the total U.S. labor force engaged in high-technology production of tangible goods, and, in the same sense, by a growth of industrial and other obsolescence under these conditions. This problem cannot be remedied without the inclusion of a job-creating capital-formation boom and emphasis on capital-intensive, high-technology investment and production.

How does the Carter Administration behave?

First, it adopts a so-called anti-inflation program of fiscal austerity and monetary austerity measures whose only possible effect is to accelerate the collapse of levels of employment on high-technology tangible goods production both absolutely and as a relative proportion of the total flow of funds through the economy. In other words, the Carter Administration's policy is designed efficiently to accelerate the rate of inflation!

This lunatic sort of "anti-inflation" policy is not adopted because of lack of alternative options.

The Tokyo capital market has offered to turn masses of capital back to the U.S., to promote U.S. investment and exports, at relatively low rates of interest. The Carter Administration makes nasty threats against Japan for even suggesting such an offer.

The European Monetary System, whose semiformal, but effectively full-scale operation is the chief reason the U.S. economy and dollar have not already fallen into the abyss, offers the U.S. not only support for the dollar, but also forms of credit-aid like those offered by Japan. The Carter Administration is currently dedicated, overtly, to wrecking the European Monetary System.

Mexico has offered to use its earnings from petroleum and other primary commodity production to purchase massive amounts of capital goods from the United States. Brzezinski, Schlesinger and the White House, with the collaboration of the State Department, threaten to overthrow the government of Mexico, Iran-style, for making such a proposal.

It is to be emphasized, for fairness, that the Republican National Committee is fully as lunatic on these issues as the Carter Administration — on some points, even more lunatic.

If the same kind of self-destructive, even suicidal obsessions were manifest in the case of an individual citizen, we would

gone insane

readily secure a court decision for that person's commitment to psychiatric custody.

Yet, although these symptoms suffice to prove de facto clinical insanity by the Carter Administration and Republican National Committee majority, these are the results, not the causes, of the insanity manifested. It is the cause of this insanity which must be understood.

Carter's hostility to "the tyranny of reason"

The general character of the insanity of both the Carter Administration and the RNC majority is that the Carter Administration "refuses to be bullied" into "submitting" to the evidence of reason. During the recent Cambodia crisis, apologists for the Carter policy said, "Of course our policy is insane, but it is our policy nonetheless, and we're sticking to it." The same sort of "explanation" has been offered in defense of Carter Administration policies on the China policy: Of course the White House China policy is lunacy, but you're not going to see it changed. In other words, the Carter Administration is saying: "We insist on our Free Will. We will not be bullied into changing our policies by any amount of proof that those policies are wrong, or even that they are suicidal. Mr. Carter is the President, and he will decide."

This sort of degeneration in U.S. policy making was first brought forcefully into public view during the course of the so-called Shaba II affair.

The U.S. government's diplomatic and intelligence services have conclusive evidence from the best official and other sources. The "mercenary" operation in Zaire's Shaba province was run, chiefly by British intelligence, through such conduits as Lonrho, and with full complicity of Belgian financial and governmental agencies. The French and Belgians suffered a controlled confrontation over this issue. Tanzania kicked Lonrho officials out of that country because of their complicity in the operation. Certain elements of the U.S. intelligence community attempted to get the facts through to the White House and Congress.

President Carter backed up Zbigniew Brzezinski's lying Sunday TV declarations on the Shaba II business, stating that he, Carter, had chosen to believe the report that Soviet and Cuban hands were principal to the Shaba II caper. Since Mr. Carter had "made up his mind," any facts were officially ruled out of consideration — even when Mr. Carter's belief was totally out of correspondence with any reality in the situation.

The same thing arose in connection with the "Camp David" caper. The U.S. Labor Party was not the only agency which warned the Carter Administration that the Arabs would not accept the agreement imposed upon President Sadat. The reaction: **Our mind is made up; do not annoy us with facts.** What happened conformed precisely to what we predicted would develop. Rather than accept the reality, that the "Camp David" caper was a piece of folly from inception, the White House connives at destabilization of both Iran and Saudi Arabia, to "punish those nations" for not bending to White House orders on command.

Carter, the ultrademocrat of the 1976 campaign, turns out to be in the model of the Emperor Nero, an "imperial president," who imagines he can do no wrong, a tyrant, whose personal caprices are taken as law, in defiance of all reality. Alas, the transition from ultrademocratic demagogue to bloody tyrant is a commonplace in human history — a lesson this nation should have learned, and then we should not have had to experience the lesson once again.

The posture of the White House of late is: "The President's mind is made up. If he decides to repeal the law of gravity, gravity will either repeal itself, or else the White House will take reprisals."

The wellspring of lunacy

There is no doubt but that Zbigniew Brzezinski is personally clinically insane. This insanity of Brzezinski's certainly contributes significantly to the deterioration of President Carter's behavior and judgment during recent months. However, it would be a fallacy of composition to over-localize the problem to Mr. Brzezinski.

The typification of the causes of the lunacy of the Carter Administration generally is better located on the inside of the Administration in terms of James R. Schlesinger and the Institute for Policy Studies and Kennedy-Goldberg elements there, and from the outside of the Administration as such in the Hobbesian alliance between California Governor Jerry Brown (Goldberg) and the Kennedy machine proper.

The Jerry Brown (Goldberg) and Kennedy machines are a coordinated "Mutt and Jeff" act. The Zen-Buddhist kook, Brown, hits Carter from the "right" (Mutt), while Kennedy hits Carter from the "left" (a rather heavily soused, alcoholic Jeff).

The Brown-Kennedy axis is complemented by and overlaps with the Rostow-Keegan-Zumwalt-Schlesinger axis. Brown-Kennedy represent the "left wing," the Bertrand Russell-leaning wing, while Rostow-Schlesinger-Fritz Kraemer et al., represent the tendency of the Otto von Hapsburg-led Pan-European Union (the Mont Pelerin Society).

To understand the combined effect of these assorted forces on the U.S. government, one must reduce this assortment to its common denominator: **environmentalism.**

The "environmentalist" movement internationally is predominantly a creation of the Bertrand Russell faction of British intelligence. However, as the procannibalism Aurelio Peccei of the Club of Rome exemplifies, on the basic issue, the Russellites and the "right wingers" (e.g., Mont Pelerin Society) have identical views. This was emphasized by geopolitician Halford Mackinder at the end of World War I. Mackinder insisted that there were really no fundamental differences between Bertrand Russell and Lord Milner's group (the Coefficients-Round Table group) behind Russell's storming-out of the group in 1902.

The "right wing" faction of British-Hapsburg forces proposes to turn back the clock of world technology for civilian economy, and accepts the genocidal mass-depopulation this will cause. However, the British-Hapsburg right-wing group wishes to keep an "island" of high-technology within the military domain, and to maintain a continuity of British-led parameters of power during the course of the transition to a New Dark Age. The Russell, or "left" faction, is opposed to any stabilizing policy; the Russellites wish to go directly to massive chaos and confusion, to wreck everything now.

The philosophical arguments these various criminal lunatics employ to argue for their policies are directed to discrediting, denouncing, and eliminating the influence of what they often denounce as the "Cartesian tyranny of reason." Like Tavistock agents Michel Foucault, Jean-Paul Sartre, and the pro-Nazi Martin Heidigger, these avowed irrationalists, existentialists, hate reason.

These types insist that the so-called inner psychological needs of the isolated individual are the ultimate reality to which political life must submit. Their view is the "right of the individual" to "do my own thing." They argue that to attempt to oblige an individual not to take mind-destroying drugs, for example, is a form of "oppression" of that individual's "freedom of choice."

This is the essence of the politics of the Zen-Buddhist kook, Governor Jerry Brown, the sodden alcoholic Senator Edward Kennedy, the profascist Milton Friedman of the Mont Pelerin Society, and the "energy doctrine" of James R. Schlesinger. **They are all morally insane.**

Carter "doing his own thing" in the White House will probably mean the early thermonuclear destruction and Soviet conquest of this nation. The key to the insanity shown by Carter is his essential post-Navy, personal fear of radioactivity, his dedication to the environmentalist cause.

West German to USSR:

Speaking in Moscow on Jan. 22, on the eve of Teng Hsiao-ping's trip to the U.S., the State Minister of the West German Foreign Ministry, Dr. Klaus von Dohnanyi, delivered a forecast of detente and mutual prosperity between West Germany and the Soviet Union. Detailing how trade has grown between the two countries, the State Minister also outlined perspectives for trade between the USSR and West Germany to continue growing — and pointedly rejected the "China card" strategy of leading U.S. and British policymakers.

...Any attempt to describe the relations between the BRD and the Soviet Union in the coming decades first has to take into account the past and present of these relations. Here a problem already begins in our dialogue.

We know the past: the "facts" are allegedly given. We experience the present in common, we observe the same events. But we consider facts and events from different perspectives. We give various interpretations according to our location, our interests, our history and our present.

I want, nevertheless, to give a short description of the past and present, one we can probably agree on. I will not be able, of course, to limit myself to German-Soviet relations. These have to be seen and understood in the context of East-West relations and world political developments.

Our common history reaches very far back. I am going to begin, though, with the end of the Second World War. The most important consequences of the Second World War were a divided Germany and a divided Europe. A Soviet Union, having become a world power, but which was at first only a really equally weighty partner (and then counter-player) to the USA. The final shattering of prewar colonial powers: the unavoidable reduction, for this reason, of the political and economic importance of traditional West European powers. A previously unknown technological boost to armaments and the discovery of new weapons, whose effect took the classical form of war as "continuation of politics with other means" into an absurdity...

The Moscow treaty of 1970 up to the final act of Helsinki, the development of economic relations up to the 1978 long-term economic cooperation agreement, characterizes a successful policy of detente and cooperation on both sides.

Thus, our starting point for the 1980s is not bad: the Federal Republic, whose security interests are anchored in the Western Alliance and whose economy (is integrated) in the European Community, wishes to continue the policy of detente and cooperation in the 1980s. We also assume that the Soviet Union wants to maintain such a policy as well. But it would be crass lightmindedness if one were to assume that the continuation of this policy which has secured us peace in Europe were to be seen as something self-evident. Rather, there are not only considerable chances, but considerable risks for detente. To use our chances and to recognize the risks — to limit them and overcome them — will be our common political task.

The chances lie mostly in the agreement of our most important interests, especially in the development of economic and cultural relations....

The further development of our economic relations with the Soviet Union in the 1980s will depend on the degree to which we are able to use the bilateral agreement at hand, and fill it with life. I am especially thinking of the visit of General Secretary Brezhnev in May 1978 to Bonn when the long-term economic agreement was signed, and seen on both sides as a document from which valuable impulses for a further positive development could emerge....

The instruments are, thus, ready. In order to be able to evaluate our economic relations in the 1980s, we need an overview of the present structure of our trade and an overview of the perspectives for its development.

Soviet-West German trade

The BRD's imports from the Soviet Union are presently about 20 percent raw materials, about 55 percent semi-finished commodities, and about 24 percent finished products altogether. The BRD delivers nearly exclusively, finished products to the Soviet Union. As a percentage of total exports to the Soviet Union, that would be about 97 percent in finished products, while semifinished products account for a mere 2 percent, and raw material exports are as good as nothing.

In this respect, the Soviet export structure has very favorably developed, in our view, since at the beginning of this decade the percentage of finished products exported from the Soviet Union to the BRD was less than 11 percent, that of semi-finished products was about 45 percent, and raw materials, at 32 percent, accounted for almost a third of total Soviet exports.

Raw materials, primary energy and semi-finished products in exchange for machines, equipment and other technologically highly developed commodities: in my opinion, not very much is going to change in this structure over the short term. I refer, for example to the large natural gas pipeline business, in which the Soviet supplies are only going to reach their peak in the 1980s. The same hold for a whole series of agreements in the chemicals area.

However, the primary substitution-exchange of commodities between western industrial nations is going to make itself increasingly felt in trade between our two countries as well. The degree of industrialization of the Soviet Union has created the preconditions for that, especially in resource- and capital-intensive semi-finished and finished products. In this area, the USSR will increasingly be able to set foot on our markets as a serious competitor. This tendency will surely contribute to significantly expanding the momentarily still-limited avenues for expanding the trade volumes.

Of course, this is heading toward a long-term process which can only be initiated in the 1980s. Such a structural change presupposes a large degree of adjustability on both sides. Among us, that means the ability to accelerate the current process of restructuring in the direction of differentiated technologies, without having to suffer social turmoil. With you, it means increased planning flexibility to be able to offer a broader pallet of marketable products, in technology, quality and design, products which will be competitive.

In that context, the limits of so-called compensation business has to be soberly and realistically faced.... I would like to mention only two reservations on the part of the federal government with respect to this form of trade, out of economic policy considerations:

- Compensation business favors primarily large businesses, since the middle and small, which are highly productive, often have no, or only very few options to market compensation commodities in their own distribution networks. Thus the danger exists that the middle level industries would be gradually squeezed out of our trade. This would have damaging consequences for the industries concerned — especially in terms of their power to implement innovations — but would also inevitably limit our trade volume. The federal government will have to follow this development very closely.
- Compensation business with mass products also bear the danger of leading the disruptions of the balance on the market through volumes and prices....

Middle-level firms, which have a very rich experience and high technological knowledge at their disposal, could make a decisive contribution to renewing capital formation in the Soviet Union. This would amount to a structural change at the same time for us, because branches of production with highly developed technology and utilizing especially skilled labor forces, would then be promoted. Such businesses in the middle level areas are especially interested in cooperation with countries which have already reached an appropriate level of technological development on their own part. This is where I see a chance. To use it, though, means more decentralization of economic decision-making in the Soviet Union, and more flexibility in the planning process....

Integrating the Third World

The chances of cooperation should also lie in our common interest to promote the Third World economically....

The EEC has created a recognized model for cooperation between industrial and developing nations in the Lome agreement. Negotiations about the adjustments and improvements of this agreement have begun.

We are negotiating in the context of UNCTAD over the creation of a common raw material fund with credit facilities, and will, as far as I can see, soon come to a result. Here is where all the industrial states, including the Soviet Union, are challenged. Over the long term, no industrial country will be able to pull away from the demands of the developing countries. But here, in the Third World, the risks already overweigh the chances of the coming decades. The states of Europe, the Soviet Union, the USA, are states with relatively fixed, even all too fixed, structures. In a constellation of bipolar balance, the relations of these states to each other gave us fewer problems than relations to the states of the Third World. These countries are just becoming countries, and, in their relations to each other and the developed world, are subject to rapid and abrupt changes. No one, in these countries or outside, is secure against surprises.

World powers and those who belong to the various camps, will obviously be affected by these changes. The Third World is no vacuum, but a grouping of striving countries looking for independent relations, and it will rapidly become a part of world politics to the extent that it is not already so. The opportunities of the 1980s consist in the commonality of the task in the risks of the competition for power among the existing blocs....

Realists will see that and make little of it if both sides again declare that they don't want these struggles for position. The battle for economic and politically advantageous positions in the Third World is going to happen. This is the reality we have to assume. What is decisive is how these oppositions develop. The independence of the states of the Third World must remain the goal of every development and aid. This must be an inviolable rule. Political pressure upon this independence is not an acceptable instrument. Military intervention — direct or indirect — from the outside for settling inter-state problems in the Third World is incompatible with the principles of detente and can create dangerous precedents which unleash chain reactions which could get out of control.

To that extent detente is in fact indivisible. But this principle can of course not be understood as though every confrontation of different interests between East and West in the Third World immediately must weigh upon our work for detente in Europe. Detente as an intention is indivisible: but crisis areas; these we must isolate as far as possible. Tensions must remain "divisible." There must be such security that it can be avoided that all-too-high tensions from the Third World travel onto our "detente lines" unmediated.

This danger grows wherever struggles for position — direct or indirect, are striven for with military means. The danger becomes considerable where the positional gain of the "winner" is not viewed as merely an extension of a zone of influence, but where this could be understood by the other power as an immediate threat to itself. Therefore, the Cuba crisis was an immediate threat to world peace....

We, for our part will do everything to make sure that these deep changes in the Third World do not negatively affect our relations with the Soviet Union.... The policy of the Federal Government knows of no Chinese card. We will deliver no weapons to China. We are, besides, not creating a policy merely to postpone a world war, but to prevent one.

Another risk for the continuation of detente policy remains, despite repeated exclamations, the growing tempo of armaments. We understand that the Soviet Union in the 1950s-60s had to catch up with the USA in its own view. We recognize the psychological and historically understandable security needs of the Soviet people and the thus explainable Soviet defense and strategic considerations. We presume that the Soviet Union has created and maintains its rapidly growing military potential for defensive purposes....

But that thus-created potential is a factor.... It will be decisive that SALT II is rapidly signed. SALT II is an example which makes clear how we should all be interested in not permitting movements in the Third World to negatively affect detente....

Is this the crash of '79?

If so, whose is it?

Many of the best-informed people in the markets began to doubt their sanity this week.

Attributed variously to events in Iran, possible events in Saudi Arabia, the intentions of the Federal Reserve, and the landing of Martians, all the markets went haywire over the past week. The underlying state of the credit markets, which flipped from a basic improvement in the entire rate structure of the dollar-denomination maturities last week to virtual shambles at deadline, was the most dramatic development and a major influence on the foreign exchange markets.

The dollar's weakness, in turn, produced a violent rise in short-term Eurodollar rates (from about 10-1/8 late last week to 11-1/8 on Feb. 8 — three-month London interbank) by the middle of the week. Gold rose sharply to a record, base metals prices rose sharply, the major world stock markets dropped sharply, and panic spread.

Behind the panic is a hype job of the kind classically represented by Orson Welles' broadcast, The War of the Worlds. A typical example of the problem involved is the Feb. 7 rumor that Iran's Ayatollah Khomeini had been assassinated, presaging a devastating Holy War, which brokerage house sources in New York had traced back to the London offices of Morgan Stanley. The net effect of the confluence of rumors is about the equivalent of putting Paul Erdman's rehash of Washington thinktank scenarios, "The Crash of '79," onto the broadtape at the middle of trading.

A quick examination of the relevant facts leaves the analyst perplexed at the extent of the hoax involved:

Myth: Iran is on the brink.
Fact: The Bakhtiar government is more stable than it seemed last week — while the dollar was rising — forcing caution from the Khomeini forces. No Iranian news **should** have affected the market.

Myth: The Iranian situation leaves oil supplies in a worse state than during 1973. Energy Secretary Schlesinger lied through his pipe at the Feb. 7 session of the Senate Energy Committee to this effect, and the 3-pfennig drop of the dollar that day was chalked up to Schlesinger's remarks (although most of the drop occurred before his testimony).
Fact: Oil supplies are short by several million barrels a day — but there is a 4.5 billion barrel world stockpile, enough to last until the end of summer without discomfort. Iran itself sold 2 million barrels last week. The Saudi cutback to 7.7 million barrels a day was inspired by an Anglophile group inside that monarchy whose position is by no means secure, and the Saudis have the physical capacity to make up the entire shortfall. The rise in spot light crude prices to $20 a barrel is a matter of oil company tricks in releasing stockpiled oil for sale — and that fall in the dollar has a great deal to do with how the extra cash flow was disposed of.

Myth: The oil producers are falling into Soviet circles of influence.
Fact: The new political center of gravity is the Franco-German superpower, including a planned linkup between the European Monetary System and the Arab Monetary Fund.

Myth: The Europeans have given up on the dollar.
Fact: Europe may have given up on NATO — now that Carter has made Teng Hsiao-ping that organization's honorary spokesman — but not the dollar.

The list could go on for pages. The accompanying features take the appropriate situations one-by-one according to the same principle.

That the market's "information" has been supplied largely out the Erdman rehash is really not subject to dispute among informed analysts. The big question is, rather, how could anyone — and we are speaking of British channels of influence in the Washington Administration, the Mideast, and the news media — get away with this kind of hoke job?

It is not certain that they will. But the opportunity presented itself when the White House did everything but sign its own committal papers, embracing war-mad Teng at the same time it permitted the "Communist mole" faction in the State Department to join in the destabilization of Iran. American intelligence, diplomacy, and other vital processes are not showing on the screen. With the Administration defunct, the "magicians" of the City of London have had a temporary free shot at the dollar.

What we have to report is not going to be palatable for many decision-makers, who prefer to believe in the arbitrary turns of the wheel of fortune. However, this is a bad time for spinning wheels.

World squeeze by ME oil shortage

The collapse of Iran's oil exports under the pressure of political chaos, is having a critical effect on world oil markets, both in terms of escalating open (spot) market prices and a shortfall of crude oil to the consuming nations. The economies of Japan and Western Europe, and to a lesser extent the U.S. have already experienced the impact of the Iranian shutdown of its 5 million barrel a day (mbd) crude exports. But the big blow to the consuming nations was dealt earlier this week with press reports that the Saudis were cutting back oil production, counted on to partly fill the gap.

According to oil industry sources, Saudi Arabia and Kuwait could in fact, make up the deficit of Iranian crude. Together they have the technical capacity to produce between 14 and 15 million barrels a day. But as these same industry sources have indicated, their refusal to turn their oil taps on full is a political question tempered heavily by dissatisfaction with U.S. policy in Iran and on Arab-Israeli relations.

Saudi Arabia dropped oil output by two mbd: from over 10 mbd to just over eight in mid-January, creating the fear in the consuming nations of an impending oil crisis. In addition, this net drop has had a negative impact on the dollar.

Well-placed sources indicate that the decision on the part of the Saudis to reduce production was presented to the Arabian American Oil Company (ARAMCO) and the Saudi Supreme Council on Jan. 15, in a proposal to impose a 9.5 mbd production ceiling for the first quarter of 1979. While this is up from the previous 8.5 mbd ceiling, it actually necessitated a decline in late January production levels to balance the 10 mbd-plus production from the first 19 days of the month.

The reduction of Saudi crude plus the Iranian shutdown presents the world economy with an estimated shortfall of 4 mbd. According to ARAMCO sources the Saudis may even further drop output in February — to as low as an average 7.6 mbd — which would further frustrate world markets and force conservation measures in a number of consuming nations.

All of the participating companies in the Iranian oil consortium, OSCO, have imposed official reductions in deliveries to their customers, known as force majeures. British Petroleum this week increased their force majeure from a 35 percent to 45 percent reduction in deliveries. Already badly hit by strikes, Britain is paying the equivalent of $1.25 a gallon for gasoline, thanks to the shortages.

Last month Japan launched an energy austerity drive, and the Tokyo government is now forced to consider dipping into its 90-day strategic stockpiles. Japan is the worst-hit by the shortages. As the world's second largest oil importer, Japan imported 20 percent of its crude oil from Iran. If the situation is not soon alleviated, the Japanese government is expected to enact a strict 10 percent reduction on all industrial and private consumption of energy.

In France, the Council of Ministers held a meeting this week to discuss among other things possible alternative means for securing crude oil. French sources indicate that the council voted on a plan to raise the cost of all fuels consumed domestically by 10 percent in order to encourage conservation. Unlike West Germany and Japan, France has a limited dependency on Iranian oil, only 8 percent of total consumption.

The other side-effect of the Iranian oil shutdown has been a major bidding up of crude oil on the spot market due to a sharp drop in supplies. According to the Petroleum Intelligence Weekly, one of the sources of the current speculative momentum is the North Sea oil fields. Industry sources have indicated that the two British companies, British Petroleum (BP) and its sister company Royal Dutch Shell, who together control half of North Sea output, are the most notorious for manipulating oil markets through hoarding and hedging against higher prices to make quick speculative profits.

According to Les Echoes, Feb. 5, the French are concerned over the dramatic climb in spot market prices since the global shortfall began. Certain small U.S. refiners have already reported paying as high as $22 a barrel — almost $8 over the set price for crude sold by the members of the Organization of Petroleum Exporting Countries (OPEC).

The Journal of Commerce, Feb. 6, reports that Japan is working through diplomatic channels in Kuwait, Saudi Arabia and the United Arab Emirates to secure preferential purchases of additional crude. Such an initiative is no doubt being pursued by the other industrialized consuming nations.

The Saudis may well accomodate such a pursuit for certain countries whose policies are amenable to Saudi strongman Prince Fahd and his close allies. But informed sources are fearful that the U.S., whose foreign and economic policies have met with disappointment in Riyadh, may not bid so well.

— Judith Wyer

Sheikh Yamani:

Saudi Arabia is almost taken for granted as the irrefutable friend of the industrial West (and especially the U.S.) and in all situations is expected to act for the good of the advanced sector. The recent cutbacks of Saudi crude oil took many by surprise.

According to one New York analyst there has been a major realignment within the Saudi royal family which is responsible for the move. Evans and Novak, on Feb. 4, cited a shift in the Saudi elite, with Saudi oil minister Zaki Yamani breaking with the second in command Prince Fahd in favor of Fahd's longstanding rival Prince Abdullah. Both Yamani and Abdullah are now openly arguing that the Saudi government has done the U.S. enough favors and that U.S. Mideast policy warrants a "warning" from Riyadh. Prince Abdullah, the third in command in the royal family has gained a powerful ally in Yamani in what is characterized as a simmering faction fight over who will replace the ailing King Khalid.

Prince Abdullah represents a far more conservative Islamic element within the Saudi extended royal family. He

Schlesinger uses Iran to cut U.S. energy

U.S. Energy Secretary James Schlesinger told Congress this week that the international impact of the ongoing Iranian oil export shutdown is "prospectively more serious" than the 1973 Arab oil embargo. His remarks triggered an immediate and sharp fall in the New York stock market and sharp declines in the U.S. dollar abroad. Substantially changing his remarks of one week before, Schlesinger told members of the Senate Energy Committee that he "personally" favored immediate mandatory conservation measures, but added that this view was not shared by the full Administration.

Schlesinger's remarks were a calculated escalation of a climate of panic being orchestrated around the Iran situation, which has cut off 900,000 barrels a day of U.S. oil, some 5 percent of its total oil consumption. Schlesinger's latest remarks, he stated, were based on his assessment that the political situation in Iran is so unstable that production for export is not likely to be restored for months, possibly years.

Schlesinger also used the occasion to announce that he is submitting emergency plans to the White House within the next 10 days and emergency standby legislation to Congress for approval by Feb. 26, a call for forced closings of gasoline stations during the weekends, forced temperature reduction in buildings and factories, and other mandatory energy "conservation" measures.

A spokesman for Schlesinger termed his remarks "realistic, not pessimistic" adding that his office was "puzzled" by the sharp reaction to Schlesinger's remarks on international markets.

Gross exaggerations

Behind Schlesinger's crisis remarks there is considerable evidence that the U.S. energy czar is using the pretext of Iran to impose austerity measures on the U.S. economy. One well-informed New York banker told the Executive Intelligence Review that the oil shortage is being "grossly exaggerated and Schlesinger is responsible for such exaggeration." He added that according to reliable insider estimates he is optimistic that Iranian exports could resume as soon s the next several weeks.

Another source close to the petroleum industry said that Schlesinger had set the stage for the current situation by refusing to take definite measures such as permitting industrial users and electric utilities to use gas and coal which would considerably reduce oil consumption by as much as 4-500,000 barrels per day.

Three weeks ago, Schlesinger's office announced new emergency standby crude oil allocation rules which, if applied, will give him the authority to ration crude oil supplies to industry, electric utilities, and oil refineries. Schlesinger's energy emergency head, David Bardin, commented that the new rules "are another step to prepare the United States to meet a variety of oil supply interruptions."

One analyst said that under the present circumstances of uncertainty "all it will take now is for one U.S. gasoline producer to go to Washington and tell the White House it cannot get oil, and there will be a real scare. That's how 1973 started." Last week, one small Texas refinery announced that it had closed its refinery for lack of oil to refine.

—William Engdahl

why the Saudis cut back

is known for his ties to the fundamentalist Muslim Brotherhood which was created by the British and still has strong ties to London-based intelligence organizations. This network favors a drastic slowing down of industrialization and oil production, a policy which the London financial machine has favored in order to undercut U.S. presence in the region.

Yamani, as well, has developed since last summer a close relationship to the British Oil Minister Anthony Wedgewood Benn, even inviting Benn — whose country is not in OPEC — to attend OPEC committee meetings.

There are rumors that Fahd, who wants to keep Saudi oil production to a maximum, may countermand Yamani. But Fahd will be hard pressed to justify this move, which will be seen as yet another favor to the United States. Washington sources say that this will require some major breakthrough in U.S. Mideast policy, given the growing impatience toward Washington throughout the Arab world.

DOE: 'to the brink of disaster'

The following are comments made to the Executive Intelligence Review by a spokesman for the Department of Energy on the impact of the Iran political situation on world energy supplies.

EIR: What is the likely impact of the continuing loss of Iranian oil exports?

DOE: Regardless of who heads up the Iranian government, it will be physically impossible for them to resume full production for at least 7-9 months because of the sloppy way the wells were shut in.

EIR: What will this mean for the rest of the world?

DOE: With Iran out of the picture for a sustained period, life is going to be particularly hellish for the Third World.... The dollar will be hard hit. So will Italy. Turkey will be in a disastrous situation to meet its IMF obligations and the loss of 1 million barrels of Saudi oil won't help.... For the U.S., $1 per gallon gasoline (Schlesinger's proposal — ed.) is an affordable nuisance, but for the Third World, it will bring them to the brink of disaster....

Behind the rush is a British plan to break up EMS

The spectacular run-up in the international gold price to an all-time high of $251.60, as of the London afternoon fixing on Feb. 7, was engineered by the five London bullion dealers and allied Anglo-American institutions. It is a big feature of their plan to break up the European Monetary System. Since that system is based on a pooling of European member countries' gold and dollar reserves, its success depends on the maintenance of a stable gold price and a strengthening of the U.S. dollar.

The signal for this latest of gold rushes came late last week when Robert Guy, a director of the influential British merchant bank N.M. Rothschild, told a New York audience that he expected gold to trade in the $260 to $290 an ounce range during 1979. Guy heads the committee representing the five London bullion dealers responsible for setting the twice-daily "fixings" of the London gold price, which becomes the "benchmark" for gold trading worldwide.

At the time of Guy's speech, gold had been trading in the narrow range of $230 to $240 for several days — precisely the range which European sources had indicated as "optimal" for the purpose of building the EMS. Guy's statement set the tone for the market. When the Iranian political crisis took a turn for the worse and word of a Saudi oil production cutback spread on Feb. 5, this was sufficient to trigger a major panicky surge of gold buying.

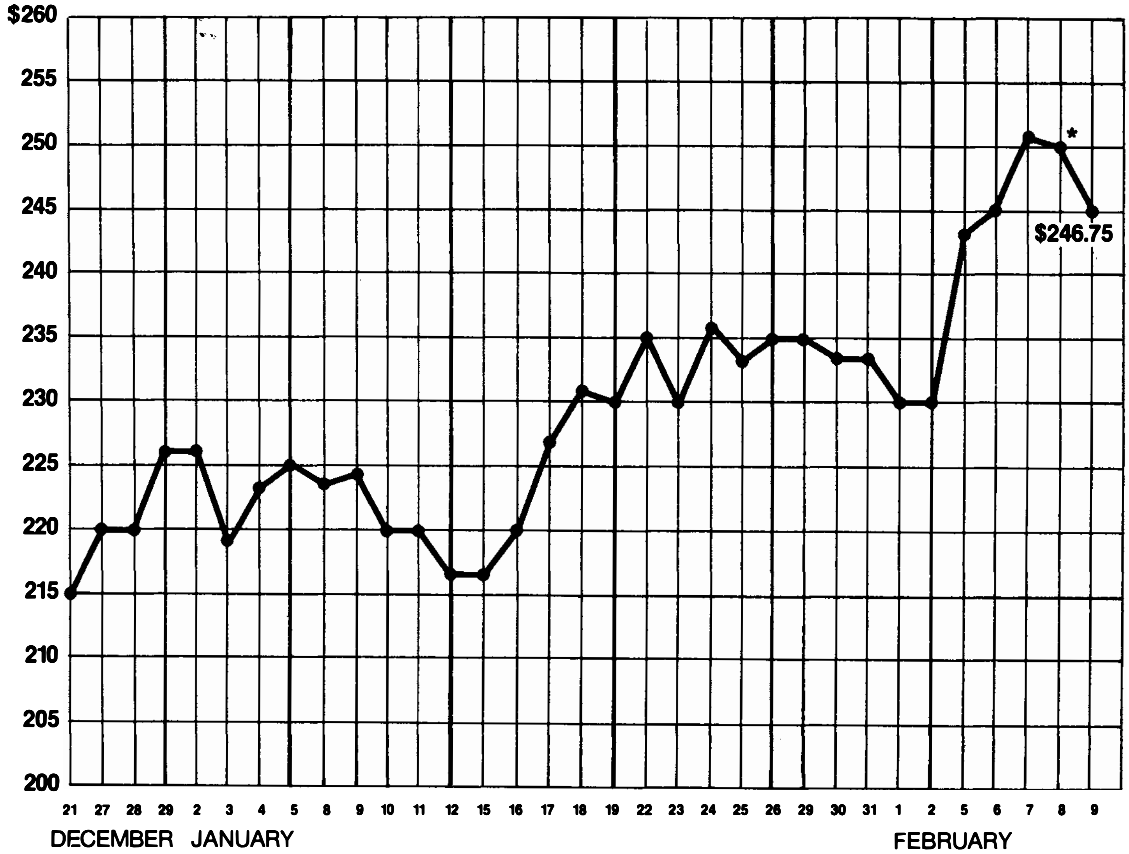
Christopher Glynn, leading gold expert with the British mining finance house Consolidated Goldfields, is advising American institutions that the leap in the gold price is part of a generalized run into metals and other tangible commodities. Glynn points out that the gold price rise on Feb. 5 was preceded by a sudden sharp surge in copper and silver prices in late trading on Feb. 2. According to Glynn, there has been a tremendous buildup of liquidity on the part of international investors who had hoped to buy cheaply into the American stock market in the event of a U.S. recession. With the international financial structure appearing increasingly fragile, these idle funds are being channeled into commodities to gain quick speculative bucks and to hedge against disaster.

Gold for development

The success of this British-rigged commodities boom rests on the ability of the British and U.S. "Eastern Establishment" media to convince investors that the EMS represents a decision by European governments to abandon the dollar in favor of a new European currency.

In reality, as the Executive Intelligence Review has documented before, the West German and French builders of the EMS intend to revive the U.S. dollar by giving it a gold backing.

London afternoon fixing



*** Feb. 8: record high of $254.40 reached during day's trading**

One way this would work is that the European Monetary Fund would issue gold-backed dollar bonds to mop up excess dollar liquidity and redirect these funds into long-term development projects in Third World and Comecon countries. EMS member governments recently decided to value their pooled gold reserves at a price determined by the three-month market average (rather than at the old official price of about $42 an ounce), thus enhancing the amount of credit which can be generated on this basis.

In a related development, reports are circulating that the government of South Africa has arranged to sell a large amount of gold directly to Saudi Arabia in exchange for oil. If true, this means that much of South Africa's gold output which would normally be sold on the open market is now unavailable, setting a floor under the gold price. The South African government has formally denied the report, which first appeared in the London Guardian.

But it is possible that a South African-Saudi barter deal may have been arranged as part of European plans to incorporate both Arab oil producers and South Africa into the EMS. Two weeks ago, South African Finance Minister Owen Horwood announced that South Africa was considering whether to link its currency to the EMS. South Africa might be successfully incorporated if European capital were employed to make South Africa the centerpiece of a continent-wide industrialization program — a plan associated with former Dresdner Bank head Jurgen Ponto.

—Alice Shepard

BRITAIN

The sick man of Europe

EIR is launching a new column on the disaster known as the British economy to document what we assert in our reports: that the British Political Economy advocated by the Mont Pelerin Society and Keynesians doesn't work.

The British government's wage policy which institutionalized "zero growth" in workers' living standards by prohibiting wage increases above 5 percent has finally achieved its goal: the elimination of "useless eaters" and the subjection of the rest of the population to economic triage.

Up to one half of the National Health Service hospitals in Britain are now providing only emergency services because of sporadic strikes by ancillary workers such as porters, kitchen staff, and laundry workers. About 1,100 out of a total of 2,300 hospitals across the country have been forced to deny new admissions. Cancer hospitals have been turning away new patients. Britain's largest childrens hospital has been brought to a standstill by "lightning" strikes lasting 4 to 24 hours.

In those hospitals which are still operating, meal service has been curtailed because of protests by food-catering workers. Patients receive only one hot meal per day if they are lucky. Others are reportedly preparing their own meals using ward facilities.

"The risk of patients who may die as a result of the delays in treatment goes by the board," said one hospital spokesman.

COMMODITIES

Panic, price hype part of London's war game

London metals traders geared up this week to set off a mood of both panic and euphoria — a "hype" as insiders call it — on the international commodities and metals trading markets. In essence, the line is that the world is headed for a commodities price boom rivaling 1974. This was quickly picked up and recirculated by London's New York friends, including Conti Commodities and the New York Times' H.J. Maidenberg, who are out to encourage investors to get out of currencies and rush onto a potentially "booming" commodities and metals market.

On Feb. 5, Barron's magazine ran a lengthy, London-date-lined article spewing the story out in full. "What oil is to Iran, a half-dozen strategic metals are to southern Africa," London correspondent Neil Behrmann begins. "Now that Iran has gone the way of chaos, the West has begun to turn its attention to other vulnerable sources of supply."

Behrmann also quotes David Hargreaves, consultant for J.H. Rayner of the London Metals Exchange: " 'It is highly probable that another major political disturbance could be witnessed in 1979. An obvious flashpoint is central Africa, while the Iranian crisis could also lead to a run-up in commodity prices.' "

On the surface it seems that the London exchange is simply trying to make a fast buck off the possibility of a crisis flare-up spreading from the Persian Gulf into Africa. The truth is that the sole purpose behind London's reports of a pending commodity price boom is to generate financial chaos.

In a recent interview also with Barron's, Peter George, South Africa's most publicity-oriented investment analyst, emphatically predicted that by August 1979, financial markets in Europe, Japan and the U.S. will blow out. To batten down the hatches in preparation for an August collapse, George recommends: "I would be into commodities, I would be into bullion, Krugerrands, gold shares, and short-term money assets" outside the U.S.

George's remarks point to the fact that London is also striving to directly sabotage major efforts undertaken in the recent period by West Germany and France, founding members of the new European Monetary System, to reach agreements with raw materials producers

Newspaper reports have confirmed that the effect on hospital waiting lists for routine operations will probably last for years.

Built-in breakdown

The British government, the "employer" in all the nationalized industries, including health care, brought this situation about by refusing to pay their public sector employees the wages necessary to maintain productivity, ensuring a "built-in" point of breakdown.

Not only are hospital workers, sewage workers, and water workers now staging industrial action, but they have been joined by school caretakers, janitors, gravediggers, morticians, and garbagemen — to name a few. The apparatus of city and local government is expected to grind to a halt when civil service workers stage a one-day strike later this month. Wage demands range from 10-15 percent as public sector employees seek to reverse the erosion of their living standards and try to keep one step ahead of inflation.

As a consequence, British life is becoming a sickening parody of the 14th century "Dark Ages" when plague and pestilence depopulated Europe and turned the clock back on technological progress. Medical authorities in Liverpool have warned that if striking gravediggers do not return to work soon, "we will seriously have to consider burial at sea." Two hundred embalmed bodies are now being stored in an abandoned factory waiting burial; 60 bodies cannot be embalmed because medical examiners who conduct the post mortems are on strike.

With garbagemen on strike, piled up refuse is already beginning to pose a health problem. One woman dryly commented: "I expect the rats will be clearing it if the weather gets any milder." In some areas, residents have been warned to boil drinking water because the sewage works are shut down.

But it is in health care that the situation is most acute, posing an immediate "life and death" choice. Striking ambulance workers are answering only the most urgent calls for help. Hospitals are ill-equipped to provide even the most basic of patient care. The government, the employer, is essentially in a position to determine who will live and who will die.

What does this say for U.S. Senator Edward Kennedy, whose national health insurance bill is, as experts in the medical field have confirmed, based on the British system of nationalized health care? Like in Britain where the "voluntary" ceiling on wages has given the vast majority of the population no other choice but the National Health Service for their family's medical care, Kennedy's bill would be accompanied by a series of deep cuts in federal welfare and jobs programs, slashing the real incomes of the poor and working class of the United States.

—Marla Minnicino

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a means for stabilizing prices and knocking out the speculative commodities markets entirely.

In the framework of renegotiating the 1975 Lome II Accord, a price stabilization agreement between the European Economic Community and 56 developing countries, the European Community has begun to lay the groundwork for dismantling London's broad-sweeping control over raw materials. Arab sources report that the Community has proposed that collaboration on fullscale energy development for the Third World be an included, special feature of the new Lome agreement. Similar arrangements are being discussed between Japan and its major Asian trading partners. The anti-London approach centers around linking stable raw materials prices to such commitments to industrialize the Third World.

Supply-demand hoax

The chief commodities which London traders are now trying to hype, outside gold, are copper, platinum, chrome, cobalt, and other specialty raw materials which come, overwhelmingly, from the southern region of Africa and the USSR.

H.J. Maidenberg's column attempts to convince the reader that current prices for these materials are determined by the forces of "supply and demand." In his Feb. 5 play-up of platinum, Maidenberg asserts that "fears of a global shortage of platinum" have suddenly made this "dull metal" attractive. Citing alleged shortages of silver and copper too, Maidenberg notes that such "fears (have not been) expressed since the 1973-74 Arab oil embargo cast a cloud over all key commodity supplies."

The "supply-demand" argument also has recently relied heavily on rumors that shortages will be forthcoming because France and West Germany have announced plans to increase government stockpiles of raw materials.

The French-West German announcements, however, are directly connected to the Lome renegotiations, and plans to channel investments from the European Monetary System into industrialization of the developing sector.

A highly informed U.S. official recently reported that while France and West Germany are "very concerned" about the situation in South Africa, they were striving to implement "not military scenarios, but economic scenarios" to secure their raw materials supplies. This economic development approach recently resulted in the announcement by South Africa that it would link its currency, the gold-backed Rand, to the EMS as a prelude to increased cooperation with Europe as a whole.

If the EMS members succeed in stabilizing South Africa politically through industrial investments, ironically, the effect will be to improve mining technologies, raise total raw materials supplies, and eventually cheapen the price despite the enormous increases in both supply and demand such a policy would entail.

—Renée Sigerson

FOREIGN EXCHANGE

The gnomes of Britannic House make magic on the money markets

The gnomes of Britannic House, London headquarters for British Petroleum and the British government's international oil policymaking center, began a purely speculative run out of the U.S. dollar over the week of Feb. 5-9. The dollar fell from 1.89 to 1.83 deutschemarks. And they did so with no basis in the political-economic fundamentals. There had been a general lowering of world dollar interest rates during the month of January which had spelled a healthy appreciation of the dollar from DM 1.85 to 1.89 the week before.

Britannic House, the policy coordinator, cooperated with one of British Petroleum's sisters, Royal Dutch Shell, and the industry's clearing bankers in London. They had purely political motivations. The dollar's appreciation and interest rate fall had signaled the impending success, as we reported last week, of the European Monetary System (EMS), initiated by France and West Germany. To function, as West German Finance Minister Hans Matthöfer told U.S. audiences in late January, the EMS required a rising dollar. The British government was not about to have the tottering pound sterling compete with a vigorous Continental EMS-dollar axis.

A timeworn mix of reality — the danger that the international oil supply could become short — and rumor mongering, were exercised to create a dollar panic where none existed. At 1:00 a.m. New York time the morning of Monday Feb. 5, the Hong Kong and Shanghai Bank and Standard Chartered began inexplicably selling dollars on the Hong Kong market. Their traders fed the rumor to London Reuters and the other wire services that Exxon had been forced to declare force majeur cancellations of its oil contracts from a sudden production cutback in Saudi Arabia. **The U.S. would face an oil crisis.**

Participants in the previous week's dollar bull market were guilty of the crime of "self-feeding optimism," HongShang Chairman M.G.R. Sandberg told the Wall Street Journal, hoping to excuse his bank's actions.

The dollars they sold were quite real. They came from British Petroleum and Shell, who have since late January been

TRADE

Reshuffling the Middle East trade deck

Middle East: While China market mania continues to monopolize the headlines in the major trade publications, a fascinating and significant pattern of economic diplomacy has emerged in the Middle East. U.S. economic and political opportunities in the region are in a shambles following the Camp David fiasco, but European nations are moving creatively and imaginatively with an approach toward the region that is lining up some fat, long-term orders.

With Saudi Arabian and, increasingly, Soviet cooperation, Europe has revived the Arab Industries Organization (AIO) to address the urgent development needs of Egypt in particular. Created more than a year ago by Saudi Arabia, the United Arab Emirates, Egypt, and Kuwait to match Saudi capital and European technology in building up Egypt's core industry — the AIO is now being plugged into Europe's trade and development approaches to the Middle East.

The French daily L'Express reported late last week that French commercial offices in Jiddah, Saudi Arabia were humming with "developments conducive to the AIO" — including the recent appointment of a United Arab Emirates official to head the organization. Now, focused on military technology-aerospace industry in Egypt, the organization will concentrate on creating a core heavy industry machine tool and machinery capacity.

Egypt's five-year plan for 1979-1984 already includes 120 billion francs worth of firm investments in industry, all to be channeled through the AIO. Baron Empain, chief of the mammoth French steel and nuclear giant, Empain Schneider, spent some time in Cairo two weeks ago to "discuss reconstruction" with Egypt's Minister of Economic Planning Al Kafraoui.

More recently, a major contract for the Egyptian national telecommunications grid — a $20 billion, 20-year contract — was awarded to the French firm CIT-Alcatel, which previously put together a phone system in Alexandria. West Germany's Siemens and the Swedish telecommunications firm L.M. Eriksson are also in the bidding for parts of the job. This is a contract which every knowledgeable observer agreed one year ago was locked up by AT&t, Continental, GTE and a few other American telecommunications giants. Saudi-West German-French cooperation is apparently behind making up the estimated 5 million barrel per day shortfall (relative to the pre-Iran crisis period) in oil on the international markets by selling from their several month inventories. The difference between the inventory price, averaging the 1978 price of some $14 per barrel and the current spot Persian Gulf price of $18-$20 per barrel, has created a cash flow gravy of some $30 million per day on these inventory sales. The same dollars the British oil companies promptly sold for deutschemarks, yen, and Swiss francs — through strategic markets like Asia.

The Exxon report, of course, was a hoax — although it took the New York market until its own closing, 16 hours later, to figure out Exxon had made no Saudi cancellations.

By that time enough rumors were circulating to keep the traders busy the rest of the week. Tuesday morning, Reuters reported that Iran was defaulting on all its foreign paper. London merchant bankers told Eurodollar market participants that Khomeini had tactical nuclear weapons aimed at the Soviet Union, ready for use. N.M. Rothschild's itself put out the word to clients — get out of all stocks, all bonds, get into cash, preferably deutschemarks and bullion.

London gold was jumping at $10 a day. By Tuesday evening the key three-month LIBOR Eurodollar rate had jumped .5 percent and the average New York foreign exchange trader was near tears.

None of this, of course, would have been possible but for the willingness of U.S. multinational corporations to panic at the drop of a derby hat. Exxon and Mobil themselves, who are raking in the same oil inventory profits as the British, and the large New York banks such as Citibank, were reported among enthusiastic sellers.

In such an atmosphere, more real problems were easily created for the dollar by Wednesday Feb. 7. The Eurodollar bond market, whose CEDEL turnover volume index had risen by 50 percent during the last week of January, was hit with a sharp selling wave as the rigged rise in the three-month Eurodollar rate and the dollar squall convinced the market that the U.S. Federal Reserve was about to severely tighten up on all interest rates. London Eurodollar bond traders dumped quickly, and the over $1 billion in new Eurodollar offerings promptly fell .25 to .375 percent each.

Through this, the West German, Japanese, Swiss, and even U.S. monetary authorities intervened heavily, and are still committed to continuing to do so. At this writing, there is still no real reason for a dollar panic — the entire week could be a blip in a general curve of falling dollar interest rates and currency stability. Remember the London rumor a year ago that the Saudis would demand the pound sterling for oil payments, which prompted a run against the dollar? A farce. The question remains, however, will U.S. corporations, banks, and political leaders be snowed by panic mongering, or publicly demand a halt to the madness?

— Kathy Burdman

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the reversal.

American corporate executives owe it to themselves to put this final item into their calculators: Yesterday, the Egyptian government made the most forthright public condemnation of Camp David yet, at the very moment that U.S. Secretary of State Cyrus Vance appeared before Congress to propose a "restarting" of the Camp David adventure.

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Horn of Africa: French initiatives of several months ago to convene a Horn of Africa Conference on Development appear to be gaining momentum according to reports in the French press of Feb. 6. A secondary focus of American foreign policy disasters over the past year, the Horn of Africa has been a festering "hot spot" for months. But combined Cuban and European stabilization efforts have effected a political calm which can be given permanence with serious regional development initiatives.

Both the French daily Le Figaro and Le Monde reported that the Soviet Union has indicated a lively interest in the proposal for a development conference — as the basis for overcoming regional antagonisms — first made by then-French Foreign Minister de Guiringaud following meetings with his Soviet counterpart Andrei Gromyko.

A spirited dialogue has also begun between European leaders and official representatives of former British colonies in the Horn area for the first time. On his first state visit late last year, Kenyan President Daniel arap Moi traveled to Paris for talks with French President Giscard d'Estaing. French State Secretary of Foreign Affairs Stirn will be making a discussion and planning visit to the Sudan. The fact that the Sudan currently holds the presidency of the important Organization of African Unity (OAU) emphasizes the broader significance of this economic diplomacy.

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Greece: The Hellenic Chamber for Cooperation and Development with Arab countries (CDC) has issued a report pointing out that Greece is the "natural bridge" between Europe and the Arab world, and noting that the growing need for transport capacity between Greece and the Arab countries can be facilitated with the improvement of roads, rail networks, and efficient port and airport operations. The CDC located the imperative for its proposal in the context of Greece's recent association with the European Community and the opening of the frontiers between Syria and Iraq.

Crete is now seeking government support for a port development program that would make it the major transit center between Europe, Libya, and the rest of North Africa. With the aid of the newly established Hellenic-Arab Bank, trade flows have already begun along this route. Greek exports to Libya will rise $200 million under a new agreement which features Libya selling oil to Greece at $3 per barrel below world market price in exchange for technology.

— Susan Cohen

CREDIT MARKETS

Who's driving up interest rates?

If anyone still believed that interest rates are determined by abstract "supply-demand" market forces, then last week's developments should have thoroughly demolished that delusion.

As of this writing, the drop in the prime rate to 11.5 percent initiated by Chase Manhattan on Jan. 29 is still catching on at banks across the country. The impetus for lower domestic interest rates actually came from Europe — from the founders of the European Monetary System. Their successful efforts to stabilize the dollar in the first weeks of 1979 forced a liquidation of short positions against the dollar, which in turn took pressure off short-term Eurodollars and then domestic interest rates.

However, there are other political forces acting to push interest rates in the opposite direction — up. As a result of their efforts, the bottom fell out of the U.S. bond market early last week and yields on 8-year Treasury notes bounded above 9 percent — higher than anyone expected and than "market conditions" warranted.

What had happened?

The key to unraveling the mystery begins with Bank of England Governor Gordon Richardson. On Feb. 5, Richardson told the Overseas Bankers Club in London that world economic and financial stability depends on U.S. adoption of "appropriate" monetary and fiscal policies, understood by his audience to mean still higher interest rates and larger cuts in government spending. In the same speech, Richardson touted his own scheme to have the International Monetary Fund "cofinance" and impose conditionality in future international lending. He roundly criticized all efforts to limit the "efficiency and scope" of the international banking system and Euromarkets — a direct reference to recent calls by West German financial officials Karl-Otto Pöhl and Hans Matthöfer for "greater transparency and control" in the Eurodollar market. The West German plan consists in introducing stability into the Eurodollar market by creating a second tier of low interest rate productive loans and thereby isolating the volatile money flows. Richardson's design is to straightjacket the U.S. economy.

The credit-crunch prophecy

The Richardson approach was served up for the lower echelons of the banker public in the annual report on the U.S. credit markets released by Bankers Trust last week. Bankers Trust economist Donald Wooley predicted that total borrowing in the U.S. credit markets will shrink to $344.3 billion in 1979 from 1978's $354.6 — about a 10 percent sheer drop, taking into account inflation.

Wooley is talking about a situation in which there is to be a deliberate cutoff in credit availability in the U.S. followed by a deep recession. Under the pretense of making their annual credit market predictions, Wooley and other members of the Bankers Trust credit market committee like Disque Deane of Lazard Freres and Henry Kaufman of Salomon Brothers sit down at the beginning of each year and attempt to rig interest rates — decide what the availability of credit should be at what price. To the extent that Wall Street gives credence to these oracular mutterings, the predictions become self-fulfilling prophesies.

Last week the Wall Street sheep allowed themselves to be stampeded in the direction of the latest London-directed high interest rate scenarios.

One of the factors unsettling the credit markets, we were told, was the situation in Iran. Interestingly, it is Disque Deane and one of his associates, economics columnist and scenario spinner Eliot Janeway, who are currently warning the loudest of the threat of a default by Iran on its outstanding foreign debt, which, they say, could trigger an international credit markets panic.

U.S. Federal Reserve Chairman G. William Miller, who drove up the key Federal funds rate over four percentage points in 1978, is naturally in on the recent new run up in interest rates. At the New York Economic Club last week, Miller made a renewed call for tight money, complete with recommendation that something be done to prevent Eurodollar deposits from returning to the U.S. and undermining the Fed's efforts to restrict U.S. credit.

Miller's speech was calculated to create expectations of renewed interest rate tightening by the Fed — expectations which, as always, had the effect of actually bidding up rates.

With Miller's prophecies well broadcast, the Fed leaked to the wire services on Feb. 6 that the monthly meeting of the Federal Open Market Committee to take place that day would decide on (1) a higher target for the key Federal funds rate, and (2) a major revision of M1, the basic measure of money supply. A major fracas has developed.

Money supply watchers say that in the wake of automatic account transfers and other banking developments, M1 (defined as checking accounts and cash in circulation) is no longer a reliable measure of the funds available for immediate use in the economy.

Miller may want to put the squeeze on the availability of credit in the economy — as his predecessor Arthur Burns did in 1974 when he helped precipitate the last recession — through redefining M1 or some such move, but he does not have the political clout to effect such an economy-collapsing measure. Even a former Fed official admitted to EIR last week that it will take the "right atmosphere" to pull off a credit crunch now. That's where the market "predictions" come in.

—Lydia Schulman

Iran economic collapse

Foreign contractors are left in limbo

The near shutdown of the Iranian economy after months of political turbulence has had a major impact on the world economy. The dollar value of cancelled contracts with the industrialized nations runs into the tens of billions, not to mention contracts whose status is undecided. The U.S., Europe, Japan, the Soviets and even a number of more advanced Third World countries have all placed major investments in Iran's development, which was one of the most aggressive programs in the underdeveloped sector until the political crisis hit last year.

If the fanatical Ayatollah Khomeini succeeds in replacing the government of Shahpur Bakhtiar, and enacts the economic plans for Iran — drawn up by Khomeini advisors Rene Dumont and his Iranian counterpart Abdul Bani Sadr — Iran will regress to an anti-Western rural economy. But, if Khomeini can be isolated and a compromise worked out between Bakhtiar and some of Khomeini's more moderate allies, then there is a likelihood that many of the old contracts will be salvaged and new development contracts with Western business will be signed.

Bakhtiar's Finance Minister this week affirmed his willingness to renegotiate development deals with the West, but stressed that unlike the multibillion dollar contracts for arms under the Shah, these new agreements must facilitate economic progress for his country.

Iranian economy sinking

Since December, the country has been losing approximately $450 million a week as a result of the shutdown of its oil exports, its sole source of income. Iran is the second largest oil exporter in the world. Estimates of reserve decline since September show a drop from about $10.5 billion to somewhere between $6 and 7 billion. New York banking sources indicate that much of these reserves have gone to servicing debt.

Due to widespread strikes, most of Iran's banking system has been closed. As a result, the moneychangers in the Bazaars of Iranian cities are lending and changing money, fueling an inflation rate in Iran of 60-70 percent.

With a massive evacuation of all foreign workers in Iran, the government is now unable to resume oil output without the know-how of skilled technicians to repair damage done to the oilfields.

U.S. industry has been the hardest hit by the Iranian crisis. Of the 40,000 U.S. nationals that worked in Iran, less than 5,000 still remain. Outside of U.S. multinational oil companies, most of the major U.S. industrial powers had major operations in Iran. Just within the aerospace and military sector, the U.S. has lost an estimated $8 billion in contracts. Many of the U.S.-assisted projects were very near completion when evacuation procedures were stepped up last month. Notably, a $200 million project to upgrade Iran's telecommunications by AT and T American Bell was left 90 percent finished last month. Similarly, work on a petrochemical plant in Isfahan, supervised by the Fluor Corporation was also in the final stages of completion.

Since October, the gas pipeline which supplies the USSR with natural gas has been shut down. As a result, the Soviet government has been forced to evacuate sections of Soviet Armenia solely dependent upon Iranian gas for heating and power generation. Moreover, the gas shipments to the USSR were part of an ambitious deal involving a number of European countries whereby Iranian gas would be swapped for Soviet gas which would be piped into Eastern and Western Europe.

Western Europe and Japan, too, have been hurt by the Iranian crisis. Last month Tokyo ordered workers and technicians with Mitsui to evacuate the construction site of one of the biggest petrochemical plants in the world. According to Japanese sources, the deal is not necessarily off. But, under the present circumstances in Iran, it was impossible to pay their staff with the Iranian banking system closed or to provide security for Mitsui workers.

There are scores of other projects involving French, Italian and West German companies which share the same problems as the Mitsui project.

Within the underdeveloped sector, Brazil is one of the worst affected by Iran: over $1 billion is in oil-for-technology agreements which have been scotched. Beyond this a $1.2 billion project for the construction of a hydroelectric dam never got off the ground due to the outbreak of political chaos over 1978. Most of the trade and industrial agreements which Iran and Brazil have worked out were based on bartering oil. According to Brazilian press sources, Iran's neighbor Iran has moved in to take over Iran's oil markets in Brazil at least until Iran's oil exports resume.

As the situation is shaping up, according to a Washington source, if a compromise can be reached between Bakhtiar and Khomeini and a "government of technocrats" from the moderate opposition is set up, then Iran is expected to continue its development, minus the wasteful corruption and military spending which occurred under the Shah. One of the new orientations which such a government is expected to take is state-to-state oil-for-technology agreements.

Nonetheless, Iranian development has been set back at least a decade as a result of the political crisis.

— *Judith Wyer*

Iran's nuclear future collapses, imperiling world energy needs

One of the least discussed but potentially most far-reaching victims of the political destabilization in Iran over the past months has been Iran's nuclear energy program. Less than one year ago, the government of Shah Reza Pahlevi was committed to one of the world's most substantial nuclear development programs, by far the most advanced of any member country of the Organization of Petroleum Exporting Countries (OPEC) or of developing nations, Brazil included.

Then, on Jan. 27, Iranian Prime Minister Shahpour Bakhtiar announced during a televised interview that all of Iran's contracts for construction of nuclear power plants were being cancelled, singling out contracts with the French reactor manufacturer Framatome for construction of two large 900 MegaWatt power plants begun in 1977. In explaining the decision, he cited the country's poor economic situation, with massive losses in oil revenue caused by months of disruptive strikes against the government.

The contracts for the two other reactor projects currently under construction, with the West German subsidiary of Siemens, Kraftwerke Union (KWU), would be allowed to continue, he affirmed, reasoning that those two projects begun in 1974, are in an advanced stage of completion, with start-up scheduled for 1981. At press time, however, the French parent firm, Framatome, is continuing work on their reactors, having received no official cancellation. But privately, officials of the company are calling the Bakhtiar statement a "hard blow."

In all, the number of reactors planned for Iran had reached 20, including six from West Germany at a value of $10 billion, four from France at $6 billion, and eight from the U.S. at $20 billion.

Iran's nuclear program

Beginning in 1974, the Shah and his advisors committed Iran to the development of 23,000 MegaWatts of nuclear power generation by construction of 20 light water fission reactors. The plan called for a 20-year development program to be completed by 1994. Nuclear sources would then provide 50 percent of total Iranian electric capacity.

The magnitude of the plan is evident in the fact that a single 1,000 MegaWatt nuclear plant is sufficient to provide electricity to a city of 600,000 to 1,000,000. If carried to completion, Iran's would be the world's fourth largest nuclear program.

The commitment of the Shah's monarchy to nuclear development in the world's second largest oil exporting country was key to using Iran's oil wealth to build an advanced technological and industrial base for the entire region by the turn of the century. The Shah, at that time, told the world that he was preparing a nuclear infrastructure for what he termed the "post-petroleum era."

For several reasons, the transition to nuclear energy in Iran became firm policy in the immediate aftermath of the 1973-1974 oil price rise by OPEC. First, oil at such high world market prices is simply too expensive to use economically in electricity production. Nuclear energy, far more economical, leaves oil for development of petrochemical industries.

Secondly, and potentially far more significant, by importing highly advanced nuclear technology, Iran was laying the basis for development of a most advanced industrial economy. Not surprisingly, the Shah personally made the strongest call at the 1977 Persepolis World Energy Conference for the international development of thermonuclear fusion energy as the long-term basis for world industrialization.

A nuclear-based economy in Iran was planned by the Shah to be the focal point for a nexus of the most advanced industrialization throughout the entire region — from Pakistan through to the Mediterranean.

Economic stakes for the industrial countries

Development of Iranian nuclear power has enormous implications for the industrial countries and, most directly, the future of France and West Germany as the moving force behind the implementation of the European Monetary System. The crest of actual contract commitment to the Iran program occurred in the fall of 1978, just weeks before the escalating London-orchestrated destabilization of the Shah's government began to produce major effects.

In early October 1978, the Iranian government signed a long-awaited "contract of intent" with the United States following talks which had been stalled since 1975 over the issue of nonproliferation. The agreement, calling for Iran's purchase of eight nuclear reactors from the United States, was referred to as "one of the few bright aspects" for foreign reactor orders since the implementation of the Percy-Glenn Nuclear Nonproliferation Act of 1978. The tentative Washington-Teheran accord which opened the way for Iran to buy U.S. reactors was looked to by U.S. industry as a way to "perhaps begin a reversal of this situation."

Not coincidentally, within days of the signing of the agreement, the Shah was politically forced to shake up his pivotal Atomic Energy Agency of Iran, reducing it to a lesser position within the Ministry of Energy and scapegoating its powerful head, Dr. Akbar Etemad on corruption charges as part of a domestic factional move to undercut his opposition. Then at the same time as the fanatical Khomeini dissident movement began attacking the nuclear program, the government announced it was "considerably reducing" its overall nuclear program goals.

Today, all bets are "off" for the eight American-built reactors. The value of this export package alone is estimated at more than $20 billion. In addition, agreements between France and Iran for two additional reactors have been dropped as have additional agreements with West Germany for four additional reactors. Now the two remaining French reactors, on which work had already begun, have been cancelled. The value of those two plants is estimated at more than $3 billion.

With the scope of Iran's major nuclear development program drastically curtailed at this point, another aspect with far-reaching implications, the joint Iranian-European investment in uranium enrichment and uranium mining, is being jeopardized. In 1974 the Shah made an investment loan of more than $1 billion to the French uranium enrichment consortium, Eurodif, for construction of the European facility at Tricastin, now in operation and a target of the antinuclear policies of the Carter Administration. Iran has a 10 percent interest in Eurodif, and in addition has a 25 percent share in the planned enrichment facility, Coredif, shared primarily with France.

These two projects are Europe's weapon to resist the Carter Administration's nuclear energy "blackmail" of the last two years, providing their extensive nuclear program with independent and expanding enrichment capacity dominated by a U.S. monopoly since World War II. French officials are privately concerned, as well, that Iran's 26 percent share with France in a major uranium mining project in Niger may be in trouble.

This is, of course, provisional, depending on the political resolution of the current Iranian situation. Clear, moreover, is the importance in preserving the basic developmental thrust of Iran as one of a handful of developing sector nations capable of developing the technology-transfer involved in nuclear energy development.

— *William Engdahl*

Quebec turning to the EMS?

Crisis, martial law are threatened in response

Quebec, long a thorn in the side of London, now threatens a major turn away from Great Britain and its Canadian Dominion in favor of the European Monetary System. The largely French-speaking Canadian province bordering on the United States is about to join a growing list of nations actively forming an independent relation to the EMS — like Ireland and Mexico — rejecting a special relationship to Great Britain in favor of a future of prosperity and development.

This is what is behind the warnings from Anglophile press conduits in London and North America about the "threat of Quebec separatism." The circles propagating these warnings are preparing a "right vs. left" confrontation over Quebec, capable of escalating to the scale of the 1970 "War Measures Crisis" which brought federal troops into Montreal and placed the province under martial law for an extended period.

Informed sources in Quebec are concerned that such a crisis may be sparked by a labor-government confrontation over legislation just introduced in the Quebec National Assembly.

William Safire's Jan. 18 Op Ed in the New York Times, the Toronto Globe and Mail, and elsewhere, is exemplary of the press cover provided to Britain's planned maneuvers. The Safire column, which coincided with Parti Quebeçois Prime Minister Rene Levesque's visit to the Georgetown Center for Strategic and International Studies, was little more than a summary of an article published in the November 1977 issue of the New York Council on Foreign Relations' journal Foreign Affairs. That article was authored by International Institute for Strategic Studies Director and former Royal Canadian Mounted Police Security Services chief John Starnes.

Safire's piece repeated warnings that the movement for Quebec independence from Canada poses a major military strategic threat to the U.S. NORAD (North American Air Defense) and NATO early warning defenses. "Do not trust Levesque's promises of moderation, only Quebec separates the U.S. from the Soviet Union over the Arctic Circle," is the warning from the semi-official British intelligence policy-making body, the Royal Institute of International Affairs to the U.S. State Department. Included in this cry is the perennial claim that "Quebec separatists are controlled cooperatively from abroad by Cubans, the French, and the Soviet KGB," an assertion widely disseminated by the Honorary Chairman of the Canadian branch of the Royal Institute, Walter Lockhart Gordon.

Safire's Jan. 18 column carried one significant update on this general line: he suggested that the increasing likelihood of a Canadian Progressive Conservative Party government under Joe Clark after this spring's elections may well bring the Quebec situation to a head.

Behind the "separation threat"

What the British policymakers from Starnes to Safire do not consider to be for public consumption, but privately acknowledge (see interview), is the existence of an independent and proseparatist force that is currently shaping the potential outcome of the Quebec situation. This grouping cannot be reduced to the standard right or left dichotomy that generally facilitates confrontation.

This faction in and outside of the Parti Quebeçois, traces itself not to the French Jacobin terror of Robespierre and Marat, but to the Republican humanist tradition of 19th century Quebec patriot Papineau, who wanted to ally the province with the U.S. This is the faction that has rekindled British worries by moving toward an alliance with the new European Monetary System.

The commitment of that Quebec tradition, as embodied in Papineau's original declaration of 1838, was never "freedom at any price" and certainly not a militant attachment to the backwardness of Quebec rural culture. Rather, the patriotism was based on hatred of British political and economic domination of Quebec and a recognition of the viability of the tenets of the U.S. Constitution as an alternative. For this reason, some Quebec separatists traditionally include a policy of annexation to the U.S. in their political aims. In the post-World War II period this tradition was centered in the Union Nationale Party of Maurice Duplessis which ruled the province until Duplessis and his successor met with suspiciously abrupt ends, during the 1960s.

Following the Liberal Party premiership of Lesage, the Union Nationale again took power. Premier Daniel Johnson hosted French President Charles de Gaulle's 1967 historic "liberation" of Quebec from British rule. Although the Union Nationale was decimated within two years of de Gaulle's "Vive Quebec Libre" speech, the French government has never strayed from its commitment to support Quebec independence. This was made painfully clear to Canadian Prime Minister Trudeau during his December meeting with Giscard in Paris.

British plans to consolidate policy control over North America by the 1980s is what is stimulating the traditional anti-British currents of Quebec separatism. In the words of leading Canadian member of the British oligarchy's secret society, the Knights of St. John of Jerusalem, Robert Scrivener, Britain desires "a single North American political and economic alliance from Panama to the Arctic Circle to prepare for global economic and regional military warfare in the 1980's."

The elaborate pattern of Canadian corporate mergers, takeovers and consolidations, involving firms under the control of a tight circle of British intelligence's wartime Special Operations Executive (SOE) — the "Old Boys," — represents an important aspect of implementing this policy. Under these circumstances, the potential for anti-British political consolidation in Quebec today is bound to be directly tested.

The issues involved are economic. The collapse of net capital investment in Quebec as well as the Canadian economy as a whole, which accompanied the abrupt collapse of the Canadian dollar over the last two years has left Quebec saddled with over $26 billion in outstanding debt. This is largely owed to London banks and was acquired for the purpose of bolstering the Bank of Canada's sagging liquidity, as opposed to aiding provincial industrialization and export development.

Who supports the EMS in Quebec

Although the Levesque wing of the presently ruling Parti Quebeçois party has been increasingly adamant recently respecting their political and economic allegiance to Canada and the British Crown, a very different tendency of increasing interest and support for the newly initiated European Monetary System has begun to surface in Quebec. That support, repeatedly acknowledged by high level Parti Quebeçois spokesmen in discussions with this new service, relates to a series of Quebec diplomatic visits now under way or scheduled to nations supporting the EMS. This diplomacy has forced acknowledgment of an internal debate on "foreign policy questions" in the province's usually British-controlled French press.

One member of a Quebec delegation now on its way to the British Isles confided to the Executive Intelligence Review that the visit to EMS member Ireland is considered the most important stop on the trip, much more significant than the trip to Britain itself. This attitude is important to upcoming visits to Japan and West Germany by Quebec Minister of Industry and Commerce Rodrigue Tremblay which aim at consolidating plans for a $1 billion provincial development fund, clearly conceived in conjunction with the new political and economic avenues opened up by the EMS alternative to the International Monetary Fund.

Tremblay is identified by London-dominated circles, like the Canadian Institute of International Affairs, as at the center of a dissenting faction within the present Quebec cabinet, against the Levesque "Sovereignty-Association" policy spelled out in a policy document now under consideration in select Parti Quebeçois leadership circles. The document, titled "Operation America" may possibly have as a point of origin the "operation Lafayette" program announced by U.S. Labor Party Chairman Lyndon LaRouche last fall.

That proposal, rapidly attracting interest in Quebec political and church-affiliated circles, posed a North American commitment to the EMS policy for global technological development as the basis for an orderly relief of Quebec from the economic and political reins of London in favor of peaceful annexation to the United States.

The Tremblay faction of the Parti Quebeçois, in conjunction with layers of the Catholic Church supporting Pope John Paul II's continuation of the Vatican policies inaugurated by Pope Paul VI, is in direct opposition on the separation and economic issues to networks Premier Levesque serves.

Levesque's associates are identified both presently and historically with the Jesuit "American Heresy" faction of the Catholic Church, for which the Georgetown Center for Strategic and International Studies serves as the U.S. headquarters. This Catholic faction originally opposed Papineau and his "Lafayette plan" for Quebec's annexation to the U.S. In this century, they have been exemplified by the self-espoused Quebec fascist leader, anti-Semite, and supporter of Mussolini, Abbe Groulx. Levesque and his "Sovereignty Association" policy, like the present leader of the Quebec Liberal Party, Claude Ryan, both avowedly represent the Groulx-Jesuit tradition and outlook.

The new "right vs. left" script

Informed circles in touch with Vatican representatives in Canada have disclosed that there is deep concern that a new wave of violence on the same scale which brought troops into Quebec in 1970 may be in the offing. Violent labor-government confrontations reenacting the staged 1974 strike wave may be the initial spark triggering such a crisis, they fear. Flagrantly anti-labor legislation just introduced to the Quebec National Assembly confirms that these fears are well grounded.

If passed, the legislation will wipe out the provincial construction and building trades unions in one blow, replacing them with a "Crown union" to be called the Office of Construction (OC). This, in turn, will drop all presently unemployed workers from work eligibility and force the remainder to work under "no strike conditions." Whole classifications such as maintainance, until now included in construction union contracts, will be dropped from the union category, while still others will be forced to accept "piece work" terms in place of the customary hourly wage.

This provocation targets the very unions which were at the center of the 1974 crisis. Moreover, these unions constitute the major trade union nesting ground within the province for "Maoist" radical networks connected to Britain's Tavistock Institute and the Washington D.C. terrorist control center, the Institute for Policy Studies.

During the 1974 events, Louis Laberge and Marcel Pepin, the leaders of the major confederations, were associated with these institutions including such terrorist groups as Black Rose, the Praxis Corp and the Front for the Liberation of Quebec (FLQ). The FLQ was the very group which conducted the kidnappings and assassinations that led to provincial martial law in 1970. With these networks still in place, a construction work force, justly outraged by the new proposed legislation, is susceptible to being led into a new round of militant "actions," triggering a crisis engulfing the province's "right vs. left" scenario.

That scenario is not limited to labor confrontation. The recently released report of a commission appointed by Canadian Prime Minister Trudeau to study the "national unity" problem posed by Quebec has set the stage for acts of terrorism and consequent military intervention on this issue as well.

The report, authored by task force chairman and former Canadian Trilateral Commission Director Jean Luc Pepin, advises that Quebec independence is "inevitable" and constitutes a democratic right of the province. One of Pepin's collaborators on the study, Toronto Kings College President Ronald Watts, has issued a separate statement stating more explicitly that "civil war over the Quebec independence drive is in fact inevitable."

The task force report has been met by closed ranks on the part of Trudeau, Progressive Conservative opposition leader Joe Clark and newly appointed Canadian Governor General Edward Schreyer, all of whom have issued statements that Levesque's meek "Sovereignty Association" is unacceptable as terms of negotiation. The potential for terrorism is signalled by the recent return of notorious FLQ members Cossette and Trudels from Paris, where they have been exiled since 1970. On arrival in Montreal, the two terrorists were allowed to remain free on bail pending trial for the kidnapping and assassination of the diplomat LaPorte which put Quebec under federal martial law. Another prominant ultra-leftist, FLQ liaison Pierre Bourgalt, has also gained publicity recently touring Canada and lecturing youth conferences on why he abandoned the Parti Quebeçois as "insufficiently radical."

And the CIIA's Honorary Director Walter Gordon has recently moved back into the public spotlight with the announcement of a new political-economic think tank which will offer "radical economic solutions" as opposed to the "right-wing" think tanks like the Economic Council and the Montreal-based C.D. Howe Research Institute associated with masterminding Scrivener's North American political alliance policy.

The Gordon initiative is strikingly reminiscent of a Gordon venture of the mid-1950s which launched the economic warfare and political destabilization tactics that eventually decapitated the province's Gaullist republican forces, replacing their Union Nationale Party with Levesque and the Parti Quebeçois.

It was Gordon who founded a Royal Commission on Economic Prospects including a number of associates from the wartime Canadian Foreign Exchange Control Board which he led under the SOE. Important among these were Douglas Fullerton and the now deceased John Deutsch, both of whom were prominant in the establishment and administration of the Canada Council in 1957. The Royal Commission masterminded the economic warfare maneuvers which led to the fall of the Duplessis government, and the Canada Council funded the provincial and federal "new left" movement including the FLQ.

Gordon's new think tank, which includes Senator Maurice Lamontagne and will be coordinated by Praxis Corp. founder Abraham Rotstein, is staffed largely by veterans of these earlier "special operations." (Praxis Corp was British intelligence's Canadian "new left" terrorist subsidiary.)

Under these circumstances, Quebec republicans would be foolish to overlook the likelihood that Walter Gordon may well be up to his old tricks again.

— Peter Wyer

Quebec specialist: Common market for N.Amer.

Dr. Alfred Hero, a founding member of the U.S.-Quebec Committee, a subsidiary of the Canadian Institute of International Affairs, theorizes that Quebec Premier Levesque's scheme for provincial independence leaving Quebec tied to NATO and the Crown will be realized. The following interview with Dr. Hero, who is considered a leading U.S. authority on Quebec separatism, was made available to the Executive Intelligence Review *by an independent journalist.*

Q: What is your assessment of the renewed emphasis on "sovereignty association" by the Parti Quebecois government?
A: One generally finds that rhetoric is moderated once a party is in power. What looked like clear-cut independence before appears now pretty fuzzy. They have, after all, come out for a common currency, a common market, staying in NATO as well as maintaining the DEW (Distant Early Warning) Line, maintaining common armed forces with Canada. The referendum will be worded to ask "for authority to negotiate sovereignty and economic association with Canada" — and on these terms, I expect Levesque will win the referendum.

Q: Are you familiar with the existence of a policy document now circulating within the PQ called "Operation America," and, if so, does this represent a dissenting view to the "sovereignty-association?"
A: Yes, I've heard about it. That's crazy!

The American business is not new exactly. Tremblay proposed a common market with the United States as far back as his days as a professor at Stanford. The economics of the proposal is not bad, but the politics are **awful!** How can you preserve Frenchness and Quebec culture in the context of a link with the U.S. if you can't in Canada?

Q: Some people are supporting a general U.S.-Canada Common Market.
A: I advocate a general common market myself. You would have a centralizing of high-technology manufacturing in the U.S. Canada would lose jobs. It would favor the resource industries. Of course, French Canadians feel that their struggles are with English Canada, not with America — that is with what they call the Montreal Rhodesians. It is not directed at Americans but at Toronto.

Q: Have you heard of a policy associated with the North American Labor Party called "Operation Lafayette?"
A: What pays for Quebec is not annexation. Quebec would gain only from a common market. Of course, there is always the criticism from the PQ left. They want a clear-cut political break with Canada. Ottawa wants to rationalize the entire national economy. This runs against the grain of the Quebec separatists. Quebec wants back what it put into the economy.

Fusion-fission hybrid reactor

The next step in nuclear energy technology

Scientists and business representatives at the second U.S.-USSR Fusion-Fission Reactor Symposium held at Princeton University from Jan. 22 through 26 agreed that the fusion-fission hybrid breeder reactor is the next step in nuclear energy technology development.

Dr. Woldenhauer of the Washington Public Power Supply System said that utilities like the one he represents could not wait for fusion to have an impact on the energy production system. He called for an international effort to implement a two-phase immediate term program to, first, work out a detailed overall plan for hybrid development and, then, to initiate experimentation.

Dr. G. Shatalov of the Kurchatov Institute in Moscow demonstrated how a developed world economy in the year 2020 could be based on nuclear energy fueled by the fusion-fission hybrid. Of his projected 100 trillion watts of total energy capacity, about 12 times the current world capacity, 30 to 40 percent could be met by nuclear energy, 6-8 trillion watts of which would be from fusion hybrid reactors. The remainder of the nuclear energy component of total production would be made up by 15-20 trillion watts from conventional nuclear fission and 9-12 trillion watts from fast breeder reactors.

France, private sources say, is looking seriously at the hybrid concept as the next major nuclear technology area to be developed. They recently, successfully launched the Super-Phenix liquid metal fast breeder reactor into commercial production.

Should the United States show a commitment to a global expansion of nuclear energy capacity on a scale commensurate with the potential availability of fuel supplies from the hybrid breeder — a political commitment that would have to be linked to a reorientation of U.S. policy commitments away from London and toward the European Monetary System — the U.S. economy would receive a tremendous and necessary shot in the arm. Industry could expect large-scale orders for high-technology specialty materials and equipment — an area of production in which the U.S. excels.

But presently, the Department of Energy's policy is to foster solar energy development and other environmentalist alternatives to nuclear energy, putting the nuclear industry on the defensive. That policy has bred in energy executives attitudes ranging from hesitation to skepticism about even considering innovative ideas for possible implementation.

And leading members of the fusion research community are split over the tactical-efficacy of adding the research and development of new ideas like the hybrid into their beleaguered programs. Cut to the bare bones by the U.S. Administration, the research budget barely funds already established fusion programs, let alone the new research ideas that are necessary to the vitality of the overall fusion effort.

The United States has relinquished its early lead in the fission breeder program, centered mainly at Clinch River, Tenn., to France. At this point, the U.S. should probably license the SuperPhenix fast breeder from that country. But the U.S. still has the lead in fusion research. Applying the highly skilled manpower pool, trained in the liquid metal fast breeder program, to the hybrid program, could accelerate the timetable for fusion-fission hybrid breeder development.

Why the hybrid?

There are two basic reasons why leaders in science and industry are supporting the immediate development of a fusion-fission hybrid.

First, the hybrid provides what Peter Fortescue of General Atomic referred to at the November Conference on an Acceptable World Energy Future in Miami Beach as "a plateau of usefulness" for the application of fusion energy well before the realization of pure fusion reactors. The hybrid will fill a critical role in world energy supplies in the next two decades and it will also provide important engineering tests for future fusion reactors.

Second, the hybrid is a very attractive answer to the question of providing cheap fuel. One hybrid can fuel from 5 to 20 conventional nuclear power reactors. In fact, in the initial phase, it may be most useful to think of fusion-fission hybrids not as electricity providers, but as fuel factories generating just enough energy to keep the reactor core going.

At the center of the device is a plasma produced by some magnetic or inertial confinement configuration. As generally conceived, a relatively modest rate of fusion takes place in the core area, producing an output of high-energy neutrons from the deuterium-tritium fuel undergoing fusion. The neutrons then pass out of the fusion plasma region and enter a blanket composed of so-called fertile material such as uranium-238 or thorium-232, substances that can be fissioned but cannot support a fission chain reaction. As a result of bombardment by the neutrons, the material in the blanket is transformed by the neutron absorption into heavier elements, fissile materials that can be separated out and used as fuel in fission reactors.

There also may be a certain amount of fission induced in the blanket, so that the hybrid operates directly as a power reactor in addition to breeding copious amounts of fuel for other fission reactors. Finally, the blanket also can contain lithium, which interacts with the neutron flux to breed tritium, one of the fuels for the basic fusion reaction.

The demand for nuclear fuel

Although there is disagreement on the time scale involved, authorities in the field of energy production agree that there definitely will be a need for nuclear fuel bred in reactors — either fission breeders or fusion-fission hybrids — if nuclear fission reactors are to continue as a significant source of global energy production. How soon this need will occur depends entirely on which projection one chooses for the expected world growth rate in the use of nuclear fission plants to generate electricity.

Dr. Shatalov's projection falls between the optimistic scenario developed by the author and his collaborators and the pessimistic assumptions in studies done by the International Atomic Energy Agency and the World Energy Conference. Both the optimistic and pessimistic projections of nuclear growth show that given the now available uranium and the expected new discoveries, the world will not be able to guarantee fuel supplies for the lifetime of nuclear plants dedicated toward the end of the century unless nuclear fuel is bred.

The hybrid as an energy multiplier

A pure fusion system must satisfy stringent requirements to be considered as a power reactor. If it is running on deuterium-tritium fuel, it must operate well above the ignition temperature of 44 million degrees Kelvin in order to sustain the fusion burn, and the product of plasma density times confinement time must be well beyond the breakeven condition of 30 trillion seconds-nuclei per cubic centimeter in order to produce net energy. The fusion-fission hybrid relaxes these conditions because the energy associated with the output neutrons from the fusion reactor can be greatly multiplied before it finally appears as heat or electricity.

In a typical fusion reactor, the fuel mixture of the two heavy isotopes of hydrogen (deuterium and tritium) fuses, producing the nucleus of a helium atom, called an alpha particle, and a neutron. Four-fifths of the energy produced in the reaction is carried away as the kinetic or motional energy of the neutron (14.1 MeV) while the remainder (3.5 MeV) stays with the alpha particle.

If fissionable uranium or plutonium is introduced in the blanket, the energy enhancement is on the order of 200 MeV per fission reaction, making possible a significant increase in the total energy output of the reactor (and at the same time relaxing the conditions for plasma breakeven). If each fusion neutron were to cause one fission, the energy outputs would be increased by more than a factor of 14. By multiplying the number of neutrons that bombard the fissile material, it is technically feasible to get an energy enhancement factor of 35 or more.

To turn the fusion-fission hybrid into a fuel factory, the blanket region would be used primarily as a breeding region to provide fuel for fission reactors, instead of as an energy producer. The mode of operation is neutron multiplication, followed by neutron absorption in a fertile material, creating new fuel that is then removed from the fusion reactor. The energy multiplication still occurs, but the conversion to electricity or process heat takes place at another location — the fission reactor that receives the fuel.

Some hybrid history

Surprisingly, the fusion-fission hybrid concept is almost as old as both branches of nuclear energy, and the hybrid history is now coming full circle.

The possible feasibility of the fusion-fission hybrid for breeding large amounts of fissile material was one of two main reasons that fusion research remained classified by the Atomic Energy Commission until 1958. The second reason was the theory that there might be a special, quick path to breakthrough in fusion research that would give one nation strategic control of the fusion power source. As the story goes, the development of controlled fusion proved to be more difficult, the rapid development of fission reactors in the 1950s provided easy access to fissile material.

Ironically, the reversal of the status of these two earlier considerations has brought the hybrid to the fore again: Fusion research in many areas has progressed dramatically during the 1970s, bringing the conditions for hybrids immediately in sight. At the same time, nuclear growth is beginning to outstrip existing fuel resources, making a new fuel source a necessity.

One of the first proposals for a hybrid based on the deuterium-tritium fusion reaction and conversion of uranium-238 to plutonium was put forward in 1953 in a report by F. Powell for a team at Lawrence Livermore Laboratory, which included Edward Teller.

In 1955, Lawson and others at Harwell in England proposed a similar hybrid configuration; and two years later, Barrett of Knolls Atomic Power Laboratory proposed a hybrid based on the Princeton stellarator. The more modern era of hybrid design and evaluation began in the early 1960s with experimental studies of the interaction of 14-MeV neutrons with uranium.

This was followed with the publications beginning in 1965 at the Massachusetts Institute of Technology and the Oak Ridge National Laboratory of detailed computer studies of the nuclear reactions and their products in more fully specified hybrid designs.

Hybrid concepts

A number of hybrid concepts have been proposed, which depend on both magnetic and inertial confinement fusion reactions to drive fuel production. Generally, the simple plasma configurations are considered as viable hybrid candidates, even though they are recognized as inappropriate for pure fusion energy production.

Concepts ranging in complexity from pure fuel factories to various combinations of energy and fuel production have been proposed by Lawrence Livermore Laboratory, the Bechtel Corporation, and by study groups working at General Atomic, the Massachusetts Institute of Technology, and several Soviet laboratories.

Depending on the complexity of the device, cost estimates for commercial production range for $500 million to $2 billion, the latter about double the cost for present fission reactors. Fuel and electricity production costs are expected to be comparable to if not cheaper than present costs.

Nuplexes

Since the early days of nuclear energy development, the idea of integrated agricultural and industrial production facilities based on central nuclear energy facilities — the nuplex — has been under discussion. Combinations of conventional, high temperature, and breeder reactors, both LMFBR and hybrid, can provide an integrated thermal and electrical energy supply for domestic and industrial use, while producing and reprocessing fuel for use on the site and in other locations. With sufficiently large groups of diverse types of reactors, entire new cities can be built.

At this time, most of the technology for fission-based nuplexes is available and construction could begin immediately, if the investment were made. The fusion-fission hybrid reactors provide a transitional technology from pure fission nuplexes to potentially pure fusion nuplexes at some later date.

How soon?

Given the Department of Energy's current timetables, a commercial demonstration hybrid reactor could be in operation in the mid-1990s. With an aggressive program, however, this time scale could be significantly accelerated so that a demonstration reactor might be on line by about 1990. In fact, researchers at Princeton have estimated that a crash program based on a tokamak (magnetic confinement fusion) core could produce a demonstration model by 1985. And Edward Teller forecast at the Miami conference that his brute force tandem mirror hybrid could be ready for commercial introduction in 15 years.

Whichever hybrid design is chosen for demonstration, the construction of an operating fusion-fission hybrid would provide a nice basis for celebrating the 40th anniversary of the original U.S. hybrid proposal.

— John Schoonover

Stalin anniversary celebrated

Occasions battle with Soviet Bukharinism

1979 is the 100th anniversary of the birth of Josef Stalin, and observers from most centers of political intelligence are watching closely to see how the event is marked in the Soviet Union. Already several items have appeared, among them a political calendar and a prominent journalist's novel, which hail Stalin's leadership of the Soviet state during, after, and before World War II.

These publications counter a campaign emanating from the Bertrand Russell Peace Foundation for the rehabilitation of Nikolai Bukharin, one of Stalin's main factional opponents in the Bolshevik Party. Last summer, the Sunday Times of London proclaimed that a rehabilitation sweepstakes was on for 1979 between Stalin and Bukharin.

An open clash between "Stalinism" and "Bukharinism" in the Soviet Union will reveal the dynamic that underlies Soviet factional disputes on crucial current questions such as the European Monetary System or the situation in Iran.

Bukharin was the deep penetration agent of British intelligence and Royal Dutch Shell operations to break up the Russian Empire before World War I — the "Parvus Plan" named after Anglo-Dutch agent Alexander Helphand (Parvus) — and he continued his activities by opposing rapid industrialization and collectivization of agriculture in Soviet Russia, from within the Soviet leadership, from the Bolshevik Revolution until his conviction and execution as a spy in 1938, under Stalin. While his avowed allegiance repeatedly flipped from "left" to "right" and back again, Bukharin consistently opposed cooperation with industrial capitalist forces in the West, the "Rapallo" policy conceived by Lenin and his Foreign Affairs Commissar, the Americanist Chicherin. For Bukharin, capitalist industrialization was "the parasitism of the city towards the countryside,... the bloated development of industry, serving the ruling classes." He looked to the peasant masses of the "world countryside" to rise to final victory over the imperialist "world city."

The similarity of Bukharin's views with Bertrand Russell's perspective of a rural "Dark Ages," or the program of the Ayatollah Khomeini for Iran, is not accidental. Among visitors to Soviet Russia in the 1920s, the people most horrified by the Lenin-Chicherin foreign policy, as well as by the broad electrification and agroindustrial plans drawn up for Lenin by G.M. Krzhizhanovskii, were the ideologues of the new Dark Age: Bertrand Russell and H.G. Wells.

Bukharin's champions today, naturally, begin with the Bertrand Russell Peace Foundation. They include such well-placed "liberals" as the Mexican writer and diplomat Carlos

Fuentes promotes Bukharin revival

In the Jan. 20 supplement to Uno Mas Uno, Mexican writer Carlos Fuentes, who has recently been associated with pro-British thinking in Mexico, promoted the rehabilitation of Viennese-trained "free-enterprise" advocate Nikolai Bukharin as something which is quietly looked on favorably by significant strata of Soviet officialdom. Excerpts from Fuentes's article follow.

One indicator of the fortune of illustrious communists will be this historical future ... of Nikolai Bukharin. This brilliant theoretician of Bolshevism, the "favorite son of the Party" after Lenin, and author of the 1936 constitution, was condemned to death by Stalin in 1938 during the terrible Moscow trials. The rehabilitation campaign initiated by his widow and his son did well during the Khrushchev regime, but was laid to rest by Brezhnev.

Today the figure of Bukharin is undergoing a secret resurgence, in the corridors of power, in the universities, in the streets — like the fantastical incarnation of an option within Russian communism. Bukharin, more so than Trotsky, represents for the Soviet party the lost alternative to Stalinism: cultural freedom, a market economy which is indispensable within socialism, and the limitation of the state by civil society. The enemy of what he called "the schemes of Genghis Kahn," Bukharin called on the Soviet party to overcome its "primitivism," broaden its internationalism, and relax its intellectual life. Today, albeit sotto voce, more than one Soviet functionary is propounding the cult of Bukharin as in order to counterpose to the slavic and orthodox* assault the proof that communism possesses other alternatives.

*Fuentes is referring to the "slavophile" texts of emigre Aleksandr Solzhenitsyn and others as a serious tendency in Russian thinking.

Fuentes (whose recent predictions of a Bukharinite revival appear on p. 51). Numbers of "British communists" — both in the Communist Party of Great Britain and in the Italian and French parties — are avowed supporters of Bukharin. The Italian Communist Party daily Unita recently claimed that the coherence of Marxism and Russellism have been known to "communists" for a long time!

Inside the USSR, Bukharinism is not a question of open endorsement of Bukharin. As Fuentes observes, chances for an official rehabilitation of Bukharin rose only during the free-for-all unleashed by Nikita Khrushchev's 1956 "destalinization." In 1977, Bukharin's son Yuri Larin was rebuffed in an appeal to have Bukharin reinstated to membership in the Soviet Communist Party.

Bukharinism, however, does exist in the USSR. It is the outlook of a Soviet leadership current based on the carried-forward influence of Bukharin and his collaborators, amplified by the acceptance of "British communists" like Kim Philby and Donald Maclean — both spawned in the "Children of the Sun" circles of the British aristocracy — into Soviet intelligence and advisory positions as bona fide defectors from British intelligence. The Bukharinite profile combines an advocacy of "class struggle" militancy and destabilization for the Third World and the industrialized capitalist sector, with "liberalizing" preferences for modifying the domestic Soviet economy through "market" innovations. It is fundamentally opposed to the Brezhnev leadership's perspective — like Lenin and Chicherin's — of seeking both international stability and the perfection of the Soviet Union's planned industrial development through trade and scientific cooperation with Western nations; it has a chance against Brezhnev when Western, particularly the United States', leaderships threaten to break off the detente and move rapidly towards confrontation.

The Stalin campaign

A 1979 calendar of events, issued by the Politizdat publishing house in Moscow, marks Stalin's birthday with a portrait and 38-line biography. The entry not only praises Stalin's role in Russia's World War II victory, but turns to his prewar contributions. Stalin "contributed to the preparation and realization" of the Great October Revolution of 1917, it states, and "applied the ideas of Lenin in the field of foreign policy as well as in collectivization." The calendar upholds Stalin in his faction fights against "Trotskyists, right oppositionists (Bukharin — ed.) and bourgeois nationalists."

On Dec. 24 of last year, Pravda devoted a lengthy review, by the noted political commentator Yuri Zhukov, to Part I of a new political novel, Aleksandr Chakovskii's "Victory," in which Stalin's "rehabilitation" is furthered by a portrait of his leadership in 1945.

A Stalin revival proceeding on the lines set by these two examples is going to cause more than a headache for Bukharinists — in the West and in the East. Neither "British communists" nor British strategists like to see the Stalin era recalled in terms of how the USSR was industrialized, how Stalin hoped to revive the Lenin-Chicherin prodevelopment foreign policy, how Stalin hated the British and their efforts to destroy the Soviet Union (as Chakovskii makes clear in "Victory") — instead of its being remembered only for the great purges.

— Rachel Berthoff and Susan Welsh

New 'Stalinist' Soviet novel features 1945 Potsdam Conference

Aleksandr Chakovskii's "Victory" was serialized in the popular Soviet literary monthly "Znamya" at the end of last year. The author, who for over 15 years has been editor of the prestigious "Literaturnaya Gazeta," had already consolidated his reputation as a leading "neo-Stalinist" by making Stalin a leading character in his earlier novel, "Blockade," a five-volume work on World War II.

"Victory" continues in the same vein, portraying Stalin as the hero of the 1945 Potsdam conference. In dealing with this watershed between the Alliance and the Cold War, Chakovskii now delves into Stalin's perception of British and American policy at that time.

Chakovskii does not give as clear and unequivocal a statement as could be wished for on the decisive development of the late World War II and early postwar period: Britain's subversion of a potential Soviet-United States entente. But he approaches the question, making an effort to cut through the mental habits of 30 years of Cold War mythology about eternal and inevitable hostility between the United States and the USSR in order to recreate the wartime climate of friendship that did exist between the two countries.

Chakovskii does this most effectively through a second set of protagonists on another level of the novel than the "Big Three," Stalin, Churchill, and Truman. These are the journalists — again, Soviet, American and British — assigned to cover the Potsdam conference. The uneasy friendship between the Soviet journalist, Voronov, and an American, Bright, is intended to symbolize the relations between the "common people" of the two nations. This literary vehicle lends itself to all imaginable cliches, but does provide the opportunity for honest portrayals of relations between Americans, British and Russians.

For instance, besides the fact that Bright likes the Russians and Voronov is basically sympathetic to Americans, Bright can't stand the British. Chakovskii has Bright refer to Stalin as "Uncle Joe," to Truman rather indifferently as "the Boss," and to Churchill simply as "Fat Boy."

At another point, Voronov converses with a hard-boiled and skeptical comrade, General Karpov, deputy to Marshal

Zhukov's Chief of Staff. When Voronov tells Karpov that he is in Berlin to write about "cooperation among the Allies," Karpov mumbles, "you mean, that there **ought** to be cooperation among the Allies."

Portrait of Stalin

The reasons for the collapse of the Alliance unfold through the eyes of Chakovskii's Stalin, musing as he travels by train to Potsdam.

> "Stalin had had an agreement with Roosevelt on (reconstruction) aid. But Roosevelt was gone now. And the new president of the U.S., Truman, had begun by 'temporarily' halting Lend-Lease deliveries.
>
> "That blatantly unfriendly step of Truman's made Stalin suspicious, although he nevertheless genuinely believed that the military alliance which had been built up during the years of struggle against Hitlerism could develop into peaceful postwar cooperation...
>
> "Yes, Stalin did on more than one occasion commit serious mistakes and violate laws laid down by the Party and worked out by Lenin. But the Leninist conception of peaceful coexistence between states with different social systems remained a firm principle for Stalin...
>
> "Of course, England's intention to play the dominant role in Europe after the war as well was something he had been aware of from earlier. Stalin also understood that the only way the decrepit British Empire would be able to play that role was with the active support of the United States.... Everything (however) pointed to the fact that Roosevelt actually believed in the possibility of a postwar cooperation with the Soviet Union.
>
> "But subsequent events, and especially one of them — Dulles' separate talks with Wolff in Berne — put Stalin into a rage.... Admittedly, Roosevelt, answering Stalin's indignant protest, had in the message before his death assured Stalin again and again of his ... readiness to carry on the joint struggle against the common enemy to full victory. All the same, the suspicions in Stalin's mind did not subside."

Turning to Britain, Chakovskii accuses Winston Churchill of standing behind the Dulles talks, which Stalin viewed as Anglo-American treachery. He explicitly characterizes Churchill, "that true servant of the British Empire," as a man born and raised to become a member of a "hereditary aristocratic elite which was firmly convinced that it was eternally destined to rule England and to extend the influence of its power throughout the world." He accuses Churchill of delaying the Second Front in order to "let Russia and Germany bleed one another to death."

> "In contrast to Churchill, Roosevelt never suffered from an anti-Soviet complex. Of course, the American president was no less distant from Communism than his English colleague. Still, it was under Roosevelt that the U.S. recognized Soviet Russia.... Americans might rightly regard (Roosevelt's April 12, 1945 reply to Stalin's protest announcing his firm intention to strengthen the cooperation between the U.S. and USSR) ... as the last will and testament of one of their great presidents: on the next day, Franklin Delano Roosevelt died...."

In sum, Chakovskii is aware of the clear differences between the U.S. and England. He is also aware of the basic impulse towards cooperation and friendship between the U.S. and the Soviet Union. But in posing or answering the question of "what might have been," Chakovskii has more difficulty. A certain orthodox "Marxist-Leninist objectivism" intervenes to prevent him from doing so; his unstated argument runs that history is "objective" — and, no matter what we might have **liked** to see, the Cold War **did** occur and it only remains to discover the "objective laws" whose iron necessity determined that course of events.

His explanation boils down to a stock "class" analysis of Churchill and Truman: Truman is the representative of a younger, more vigorous capitalist form of imperialism which must lawfully oust Churchill's old and outdated variant. Chakovskii thus obscures what he elsewhere emphasizes, namely that Truman became the tool Churchill needed to overcome Roosevelt's idea of continuing an entente with the USSR!

The lowest irony of Chakovskii's flawed argument is not just that it brings us back to the same old myth about the origins of the Cold War that Chakovskii in effect struck out to overcome. It allows Churchill and his elite — the people prepared to start World War III for the sake of fulfilling their "destiny" of eternally ruling the world — to scamper off scot-free. And what Chakovskii apparently considers his most damning characterization of Churchill is precisely what lets him off the hook. Chakovskii writes that Churchill's fundamental problem was being born too late for the age of British imperialism.

But to allow that is to allow that there must have been a "right" time for Churchill. And any conception of history that concedes to Winston Churchill and the British Empire, or others of the antihumanist elite, a "lawful" time in the past thousands of years of human civilization suffers from a flaw of historical relativism that is out of place with the hopes for world development which, deeply ingrained in the Soviet policy-outlook, characterize the basic policies of the Brezhnev leadership today.

— Clifford Gaddy, Stockholm

Pakistan: court upholds verdict to hang Bhutto

The Supreme Court of Pakistan, pressured and intimidated by the martial law administration of General Ziaul Haq, has upheld the sentence of death by hanging against ousted Prime Minister Zulfikar Ali Bhutto. The long-delayed court announcement came as a brief prepared statement Feb. 6, sending Bhutto — one of the developing sector's most eminent spokesmen — to the gallows on alleged murder charges.

The hours preceding the verdict witnessed the most unprecedented military deployments against members of Bhutto's family, members of his People's Party, and even potential supporters. Thousands of arrests were carried out and a virtual state of siege imposed as the army and the population faced each other in a decision that has brought Pakistan extremely close to shattering civil strife.

Even though public outrage in defense of the still-popular premier was preempted before the announcement, the military junta failed to produce a unanimous verdict by the Supreme Court. The 4-3 decision has brought out the stark realities in the situation. Four judges from the Punjab region, the stronghold of the military and of the Jamaat-i-Islami Party, the equivalent of the British intelligence-created Muslim Brotherhood in Pakistan, ruled to hang Bhutto. Three other judges, one from each of the provinces of Sind, Baluchistan, and Northwest Frontier, dissented and questioned outright the validity of the case. Further, Chief Justice Anwarul Haq, whom Chief Martial Law Administrator Gen. Ziaul Haq appointed to that powerful post last July, cast the decisive vote. He is known to harbor deep grudges against Bhutto, having repeatedly stated that he considered Bhutto guilty even before all the evidence was presented.

Kangaroo court

As the case stands now, the clock is ticking to carrying out the military-inspired execution. There have been numerous international statements by eminent leaders (see below) calling on Gen. Zia to spare Bhutto's life. However, as experts themselves admit, there is a factor of irrationality involved in the decision. There are generals who want to hang Bhutto no matter what the consequences to the nation are; there is a deep-seated personal and political vendetta harbored by the Jamaati against Bhutto, and the military as well has no love for the ousted leader.

As this journal goes to press, reports are that Bhutto has refused the option of asking for clemency, and sources in Pakistan are viewing Feb. 13 or 14 as the potential date that the army will take Bhutto to an isolated provincial outpost to hang him. Garishly the generals are said to be worried over what to do with Bhutto's body.

But the most stunning attack on the prejudiced judiciary and military came from the dissenting judges themselves. Justice Dorab Patel, a non-Muslim, stated publicly hours after the decision that the prosecution "had appalling defects in the evidence of its main witnesses ... it failed to inspire confidence." Another judge stated, "Mr. Bhutto's conduct was such (throughout the period of the murder allegations) that reasonable capacity for an innocent interpretation exists."

Strategic implications

For months the British Foreign Office has known that the building explosion in Pakistan had the makings of precisely the scenarios the experienced tribe profiler, Sir Olaf Caroe, had suggested. Caroe in many books and field expeditions had talked about regional upsurges in Central Asia, the Pushtu and Baluchi tribes, and Afghanistan. He had also been the author of the Central Treaty Organization pact — a treaty the United States then absorbed responsibility for from the British Foreign Office. The London Daily Telegraph, one day before the Supreme Court ruling, stated, "If Pakistan breaks up and lets the Russians through to the sea while other juicy morsels are snapped up by the Chinese and the Indians, the whole area, with neighboring Iran in turmoil, could become as dangerous to world peace as the Middle East has been for 30 years ... a flashpoint for thermonuclear war."

The disintegrative potential that exists in Pakistan is evident in the recent tensions on the Pakistan-Afghanistan border. It has been widely reported that a training camp has been set up in Peshawar, Pakistan where Pushtu and Baluchi tribal rebels are being armed and trained with Chinese arms to subvert the Afghanistan government. Reliable reports indicate that Zadir Shah, the deposed king of Afghanistan — until recently exiled in Rome — has returned to Pakistan, coordinating the subversion against the Afghan government. During Bhutto's rule, the Afghan royal family, sponsored by the British Foreign Office to run drugs and contraband goods into the Arab world and Europe, was not permitted to operate in any way out of Pakistan.

The future of the junta

Bhutto's fate is intimately tied to the future of the military junta in Pakistan. At the end of this month, Gen. Ziaul Haq's term as chief of staff of the armed forces will expire. Zia has three options: he can retire as army chief, and stay on as President, a choice he rejected once before; he can appoint a junior officer to the post, thus forcing the resignation of many senior disgruntled officials; or he can retire both politically and militarily.

Since Zia himself seized power on July 4, 1977 in what he called "Operation Fair Play" and a "Ninety Day Operation Fair Play," he has long overstayed his own deadline to hold elections. Now his political future is complicated by the court verdict against Bhutto. Many sources suggest that there is extreme polarization among the military, between those who want Bhutto hanged and those who on some level understand the seriousness of the atrocity for Pakistan. Thus far, the former group, backed by the Jamaati, has managed to hold its ground to execute Bhutto.

— Leela Narayan

What is the Jamaat-i-Islami?

On Feb. 10, it is expected that Chief Martial Law Administrator of Pakistan, Gen. Ziaul Haq will make a nationwide address. The Daily Telegraph states that Zia will announce the creation of an Islamic republic based on new social codes. The code will include penalties such as chopping off hands for theft, amputation of feet for banditry, public stoning for adultery and flogging for drinking. Gen Zia proposes a return to feudal dark age legal code which endangers the future of Pakistan as a nation, as well as its economic development and prosperity.

The author of Zia's social codes is the Jamaat-i-Islami, the Pakistani equivalent of the supranational Muslim Brotherhood, the Islamic fundamentalist group organized by Britain in the early part of this century. The Jamaati has, since the July 4, 1977 coup which overthrew Bhutto, promoted his hanging. As well, the junta-appointed Information Minister Farooqi has told this press service that he views the floggings given to supporters of the Prime Minister during their incarcerations as merely the implementation of the 1898 Civil Penal Code instituted by the British Colonial Office.

The Jamaati's connections with the British Foreign Office operations runs deep. In collaboration with Zbigniew Brzezinski's Institute for Communist Affairs at Columbia University, the tribal deployments are being organized at a strategic level. Money for the Jamaati operation is believed to be coming from the Prince Abdullah faction of the Saudi Arabia royal family, funneled through the Islamic Foundation of Europe.

If Bhutto is hanged as the Jamaati wants, the type of civil war unleashed in Pakistan will be far worse than the current disorders in Iran because Bhutto remains today, even in jail, the most popular political leader of Pakistan. It is not a mere coincidence that Iran's Ayatollah Khomeini sent Jamaati leader Maulana Mawdoodi a secret message on the eve of the Bhutto verdict announcement. In the message, it is reported, Khomeini urged the Jamaati to press ahead with the "holy war."

Governments, press support Bhutto

In 1976, when Pakistani Prime Minister Zulfikar Ali Bhutto told then U.S. Secretary of State Henry Kissinger that he would not cancel the purchase of a French nuclear plant, as demanded by the U.S., Henry Kissinger replied, "I will make a horrible example of you." In April 1977, four months before he was overthrown by a coup d'etat, Bhutto publicly charged that the Carter Administration, the British Broadcasting Corporation, and the Zionist lobby were the forces who sought his ouster for seeking a nuclear capability for Pakistan. We present here the international reactions, governmental and in major press organs to the Supreme Court's decision to hang Bhutto. While European governments have made it clear that an execution of Bhutto would be viewed harshly by their governments and peoples, Kissinger's responsibility in the matter has even been noted by some foreign press. Overall, the international press has reacted strongly against the imminent hanging of Mr. Bhutto, though several U.S. papers also took the opportunity to take swipes at the Prime Minister. In France, Le Figaro warned of the danger of civil war should Bhutto be executed, and France Soir quoted a recent court speech by Bhutto warning that "If I am killed, Pakistan will become a new Iran." The conservative German daily Die Welt predicted "a chain reaction leading to the renewal of separatist tendencies" if Bhutto is killed, and cited a warning from Bhutto's son in London that "The elections Zia promised won't be held because whether Bhutto is dead or alive, he can win them, even from his death cell."

Heads of state react to the verdict

Bulent Ecevit, Prime Minister of Turkey: Called for Pakistan to pardon Bhutto, and offered Turkey as a place for Bhutto to live in exile "if that will contribute to the setting up of a democratic regime in Pakistan."

Ola Ullsten, Prime Minister of Sweden (in a cable to General

Ziaul Haq): "My country opposes the death penalty and has for many years worked for its banishment.... A decision by your excellency to commute the death sentence to less grave penalties would be welcomed the world over as a humanitarian act."

Federal Republic of Germany: Asked for clemency for Bhutto and warned that the German people would view Pakistan harshly if Bhutto were hanged.

France, President Giscard d'Estaing: Urgently requested that Bhutto not be hanged.

James Callaghan, Prime Minister of Britain: "I have today officially made representations to General Zia to ask him that he should, as an act of clemency, spare the life of Mr. Bhutto. The consequences of clemency would be more beneficial to his country than the strict application of the law."

James Carter, President, United States: Appealed for clemency in a letter.

Arab world: Qatar and the Palestine Liberation Organization publicly called for Mr. Bhutto's life to be spared.

Press comment

Le Monde, editorial, Feb. 7: "The Gallows for Mr. Bhutto?": Only pressure from governments with whom Mr. Bhutto entertained good relations, and from which his successors also want to gain trust, can save the former prime minister from the gallows.

It is very unlikely that Washington will intervene vigorously. From his prison, Mr. Bhutto had accused the United States of having indirectly engineered his fall because they were hostile to his policy of providing Pakistan with nuclear energy. Has France, from whom he had ordered a uranium reprocessing plant, intervened to save a man who had been France's official host and who willingly turned to France to order military equipment? If she has done so, it was to say the least, done very discreetly (this was published prior to Giscard's statement — ed.).... We must expect a strong reaction from the members of the Pakistani People's Party which he had founded, if he is executed.

Vita Sera, Italian daily, Feb. 7, "Bhutto From Prison Accuses Kissinger: 'He Wanted the Coup d'Etat' ": According to the former prime minister of Pakistan, the original author of the military coup d'etat and of his own downfall was Henry Kissinger. The American former Secretary of State, in fact, personally threatened that he would make of Bhutto a "terrible example" if he did not abandon his program for the development of nuclear energy.... According to Mr. Bhutto, "Kissinger told me that I had three alternatives. A, to forget the nuclear plant project, and the imminent operations (against Bhutto) would not materialize. B, to postpone the election, or C, to meet the serious consequences...." (Article then quotes from Bhutto's letters from prison, published by Executive Intelligence Review in "The Pakistan Papers.")

New York Times, editorial, Feb. 7: Mr. Bhutto is no innocent victim of the changing political winds. While in power, he ruled with a high hand, and he bears a major responsibility for the return of military rule.... There was no way to separate the Bhutto case from politics. Despite the judiciary's quest for impartiality, it could not try Mr. Bhutto as if he were an ordinary defendant. The presiding judge, like General Zia, was a Bhutto appointee who had broken with his patron. The contempt of the judge and the general for the defendant, and his for them, was undisguised.... General Zia should consider that a martyred Mr. Bhutto might also wreak vengeance. The former prime minister is probably more popular now than he was before the coup.... Should he be executed, myth might well entirely supplant reality.

Baltimore Sun, editorial, Feb. 7: The opinion of the Lahore High Court last March convicting Mr. Bhutto was a convincing reading.... Now the Pakistan Supreme Court has reaffirmed the conviction.... The lesson of the supremacy of law, however, would be lost if the new military ruler, President Ziaul Haq, allows (Bhutto) to be hanged. The world and the Pakistani people would understand only that an inconvenient opponent was done away with. Mr. Bhutto remains the most magnetic political figure in Pakistan.... Presidential commutation of the sentence to imprisonment is in order."