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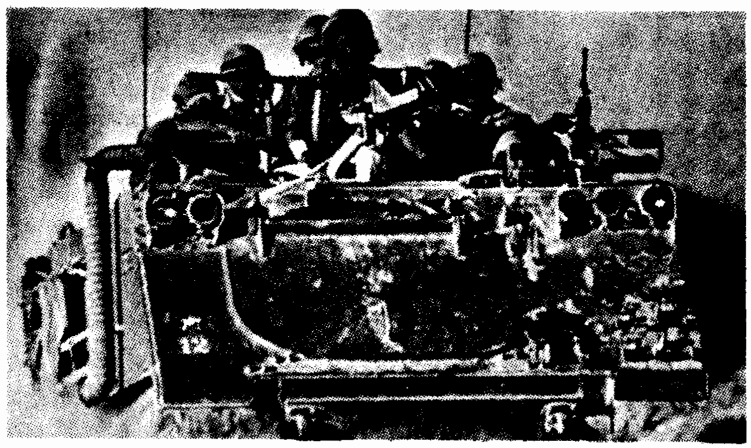

Israel: Model Nazi War Economy

In one of the most brutal and tragic ironies of the 20th century, the Israeli economy has been transformed, in the wake of the Camp David pact, into the postwar world's closest approximation of the war economy assembled in Nazi Germany by Finance Minister Hjalmar Schacht. And like Schacht's debt-ridden Germany, today's Israelis are openly embarking on a program of looting and conquest in order to sustain an overgrown war machine in an economy that is swiftly turning away from forms of socially useful production, particularly in the wake of the Camp David pact. This week's SPECIAL REPORT has all the details of this ugly story: the Israelis' debt burden, their increasing dependence on the arms trade and the underworld-tainted diamond industry, and the burden of inflation and taxation that oppresses Israel's citizens. And, reports correspondent Max Sawicky, the harshest truth of all is that Israel's Schachtian policies may doom Israeli's chances to become a vital member of the Middle East community of nation. **Page 22**

EXECUTIVE INTELLIGENCE REVIEW

IN THIS ISSUE

'Free enterprise' threatens French economy

Does "free enterprise" work? Ask French President Giscard d'Estaing. More than two years ago, a group of liberal "new economists" sold him on the idea that a good dose of "free enterprise" — cutting down France's robust public sector, and channeling hot funds to private industry — was just the remedy needed to improve the health of the French domestic economy. Now the results are in, and, says EIR's Alain Lemal, if Giscard is smart he'll go back to de Gaulle's Colbertiste formula heavily weighted towards dirigism. Lemal's report in this week's ECONOMIC SURVEY includes the unhappy statistics resulting from France's fling with antidirigism.

Page 38

Bilderberg cult plots oil war

Not public until now, *EIR* publishes the agenda and attendance list of the top-secret Bilderberg Society, the organization of European monarchists, cultists, and their allies which meets at the end of April in Baden, Austria. This week's INTERNATIONAL section of Executive Intelligence Review exposes who'll be there before they get there, and tells you what to expect when this crew disperses throughout North America and Europe after the society's conclave adjourns.

Page 19

THIS WEEK

The Henry Kissinger question 5

ECONOMICS

New GATT treaty initialed 7
Antidirigist measures prompt Third World boycott
Brascan bids for Woolworths 10
International Credit ...12
Domestic Credit 13
Foreign Exchange 14
Gold 14
Britain 15
Commodities 16
Banking 17
The American System .18

INTERNATIONAL

Bilderberg cult plots oil war 19
EIR publishes scheduled attendance at Austrian gathering
Bilderberg at Baden: who'll be there 20

SPECIAL REPORT

Israel: model Nazi war economy 22
With the Nile secured, march to Euphrates begins 30

EUROPE

Brandt crony organizes
And reinterprets German policy
Karamanlis maps his country's future role 36
Greece seeks to bridge Europe and the Arab world

ECONOMIC SURVEY

'Free enterprise' threatens French economy 38
with EMS on the back burner

Vol. VI, No. 15
April 24-April 30, 1979

REVIEWS

'The energy war has begun' 47

SOVIET SECTOR

Soviet scientist condemns the Harrisburg scare 49

U.S. REPORT

LaRouche or fascism 51
Labor Party leader only candidate opposing Carter reorganization
Reorganization: behind-the-scenes coup 52
Reorganizers talk about their program 53

LATIN AMERICA

Mexico: Carter Administration regroups for attack ...56
'An Iran on U.S.'s southern border' 58

LABOR

After the IBT contract—what next? 59
The Teamsters on 'dissidents' 60

COLUMNS

Congressional Calendar 54
Labor Periscope 61
Energy 62
Facts Behind Terrorism 63
World Trade Review 64

GATT agreement attacks dirigism

Why did some 60 Third World nations boycott the announcement of the new General Agreement on Trade and Tariffs? Our report by Trade Editor Richard Schulman, heading off our ECONOMICS section, brings you the full details, including frank and brutal comments by Assistant Treasury Secretary C. Fred Bergsten. Plus, a look at the Brascan bid to takeover Woolworth, why Fed Chairman William Miller declined to raise domestic interest rates, and a new column on "The American System."

Page 7

Brandt crony organizes against Schmidt and Wehner

Another exclusive story: what Conrad Ahlers, the journalist of West Germany's notorious *Der Spiegel* affair and today a Social Democratic parliamentary ally of former Chancellor Willy Brandt, told audiences during his tour of high-level U.S. military installations and diplomatic centers which included at least one téte-a-téte with Zbigniew Brzezinski. Publication of this material may well involved Ahlers at the center of a new political scandal, this time one he won't enjoy.

Page 33

The Henry Kissinger question

With Japanese Premier Ohira's April 19 announcement that Japan will rearm to resist Soviet expansionism in Asia, Henry Kissinger has once again entered onto the center stage of global politics.

Japan has been under tremendous pressure over the recent past—pressure aggravated by the threat of trade war from the United States and Western Europe, and by the "arc of crisis" destabilizations in the Middle East menacing resource-poor Japan's vital oil supplies—to find in rearmament an easy solution to its economic difficulties. Some Japanese business and political leaders are even reported to be euphoric about the prospect of an "independent" military strength.

Ohira's announcement coincides with the unleashing of the Israeli "marcher lord" against its Middle East Arab neighbors, beginning with the Anschluss of Begin's Sudetenland, southern Lebanon; the hurtling of tribal hordes in Afghanistan, Pakistan and Iran in direct threat to the Soviet Central Asian republics; and the provocative announcement of U.S. Strategic Air Command dress rehearsals for a nuclear first strike against the Soviet Union.

The Soviets have made it known that if this "no prior notice" nuclear maneuver is begun, they may send a "for real" response. Ohira's opening to a NATO and Peking-allied military buildup in the Far East is thus an invitation to bring down on Japan the holocaust of Hiroshima a hundredfold.

Ohira is a close friend of Henry Kissinger. The former Secretary of State happens to be visiting Tokyo this week, attending a meeting of the Trilateral Commission. The Trilateral Commission is one of those conspiratorial bodies that overlaps with the New York Council on Foreign Relations, the Royal Institute for International Affairs, and the highly secretive monarchist Bilderberg meeting that is assembling in Baden, Austria on April 26. The monotonous theme of all of these gatherings has been the necessity of expanding NATO into the developing sector.

But the mid-April 1979 declassification of a series of U.S. government documents, released to New Solidarity International Press Service which publishes Executive Intelligence Review, could finally bring Henry Kissinger's career of deployments against the sovereignty of other nations to an end.

The declassified documents, released by the State Department's International Communications Agency, cover the period from April 1975 through August 1977, beginning with the Bonn U.S. Embassy's role in a black operation run against NSIPS. Under orders signed by Henry Kissinger personally, Bonn acted as the center for spreading lies against this press service throughout Western Europe, explicitly aimed at preventing NSIPS from either gathering or disseminating information.

The operations against NSIPS were motivated by the City of London's opposition to the April 1975 "International Development Bank" proposal of U.S. presidential candidate Lyndon LaRouche, a contributing editor to this review. Furthermore, NSIPS had intersected the London-Kissinger directed destabilizations against the Echeverria government of Mexico and later, in 1976, the government of Peru.

While the declassified documents make a mockery of the concern for "freedom of the press" professed by many public figures, they also provide ammunition to those Europeans who may be preparing a flanking maneuver against the London-Peking-Washington-Jerusalem war axis.

To take on Kissinger is a good way to overturn—abruptly—the longstanding myth that intervention between Washington and Western Europe is a one-way process.

The Week in Brief

The *Soviets* are publicly assessing a U.S. decision to conduct Strategic Air Command *"Global Shield '79"* maneuvers at some unannounced time during this year, and asking how their General Staff will know that they are *"not for real."*

In a pointed April 15 commentary in *Pravda*, the Soviet Communist Party daily described how American bombers will *"stage" the nuclear bombing of Soviet territory*, flying up to the borders of the Warsaw Pact, then turning on a dime and returning to the U.S.

"The Soviet Union, which will not be forewarned of the date of the maneuvers, will be *left to draw the appropriate conclusions*, when the radars register the appearance of the American air armada. The *Pentagon* has never distinguished itself by particular scrupulousness regarding the interests of other states and international security." This time, however, "it has outdone itself," warned Pravda.

* * *

"President Giscard d'Estaing and Chancellor Helmut Schmidt alone are capable of stopping the imminent outbreak of a world nuclear war to which President Jimmy Carter's lunatic policies are leading." The message is from U.S. presidential candidate Lyndon H. LaRouche, Jr., reported in an Agence France Presse release of April 11. In the Paris interview, LaRouche declared that "if the Carter Administration pursues his pro-Chinese and anti-Soviet policy influenced by Great Britain, then *World War III will break out in May* or a few months later."

LaRouche was also covered in the leading Belgian daily *Le Soir.* Noting LaRouche's appeal to Schmidt and Giscard to intervene into U.S. politics, Le Soir also reported that the LaRouche campaign singles out NATO has-been Alexander *Haig as the "British" candidate* for U.S. President.

* * *

French President Giscard d'Estaing's April 18 televised policy address to the French nation opens possibilities that the *Europeans may yet move* to head off the danger of a thermonuclear war. Focusing on the significance of his upcoming trip to *Moscow* on April 26, Giscard stressed the *continuity* of French relations with the USSR over the past 14 years—ever since President de Gaulle took France out of NATO.

"I want to tell you," Giscard said, "that in the midst of today's international situation marked by increased violence and danger, France has put itself in the position of being able to provide leadership for the *furthering of detente*, and we have the intention, I have the intention to go on with this role." High-level sources in Bonn and Paris report that those governments are still debating the central issue of their foreign policy—whether the new European Monetary System will challenge the *International Monetary Fund* by issuing credit for Third World economic development, as originally intended, or function as an adjunct to the International Monetary Fund.

* * *

The Saudi Arabian Interior Ministry has announced that a "*security pact*" has been signed among the oil-producing countries throughout the Persian Gulf to combat "*subversion* in the oilfield." As West German press accounts indicate, the main partner of the Saudis in this endeavor is *Iraq*, the Arab country with the closest strategic ties to the *Soviet Union.* This suggests that Saudi Arabia is seeking Soviet assistance in clamping down on certain "radical oilfield workers" known to be connrolled by the Israeli *Mossad* intelligence agency and networks run out of the *Bertrand Russell* Peace Foundation in London.

Last week, the English-language *Arab News* published plans being developed by the United States and NATO for an *invasion* of the Persian gulf oil fields.

* * *

France and West Germany officially told the Israeli government of Prime Minister Menachem Begin to rein in the Christian Maronite *Major Haddad* and his Falangist army in southern Lebanon. Both governments delivered their messages in *sharply worded telegrams* on April 18.

Major Haddad this week declared an autonomous "free Lebanon" in southern Lebanon, which as our SPECIAL REPORT this week documents, has the full political and financial *backing* of the *Israeli government.*

* * *

The crackdown against terrorists in Italy is taking on a sweeping international focus. The Italian officials in charge have been working closely with the West German BKA security services, which itself has been holding meetings with the leadership of the Palestine Liberation Organization on the *British origins* of terrorism.

In Italy, *Judge Calogero* is leading the antiterrorist operation which has already led to two dozen arrests of the "theoreticians" and deployers of the Red Brigade terrorists. Calogero, reports the Italian Communist Party daily *Unita*, views arrested professor *Toni Negri* as a key link between Italian and international terrorism.

Calogero has documented the links between Negri and terrorist organizations in France, West Germany, Belgium, Portugal, and Canada, including such leading European "intellectuals" as the head of *Jean-Paul Sartre's* "Committee Against Repression in Italy."

Confronted with repeated Palestine Liberation Organization charges that last year's assassination of a top PLO official was committed by an individual carrying a West German passport, West German BKA officials answered that the woman in question was from *London* and was using the "West German" cover to deflect attention from London.

* * *

Mexican Foreign Minister Santiago Roel blasted the *New York Times* and *Washington Post* for their "negative" reporting on Mexico and "absurd form of presenting news," in a conference on international relations and the media in Mexico April 17.

"The media doesn't have the capability to provide an in-depth analysis of foreign relations...It is *about time*, as I told the owner of the Washington Post, *to change style*" if relations between the U.S. and Mexico are to improve, Roel said.

The U.S. press has been campaigning to force Mexico to hand over its vast oil resources as a U.S. strategic reserve (see LATIN AMERICA). Mexico has just rejected a "bilateral agreement" that the U.S. has pressed under threat of sealing off the border.

New GATT treaty initialed

Antidirigist measures prompt Third World boycott

"A successful Tokyo Round," U.S. Deputy Special Trade Representative Alonzo McDonald enthused April 4 to a Senate subcommittee, "will do more in the short run and in the long term as well, to forestall protectionism than any other program I could imagine." President Carter a few days later hailed the new General Agreement on Trade and Tariffs (GATT) pact as "the most far-reaching and comprehensive" agreement in three decades," a pact which would "increase the opportunities of all nations, rich and poor, to exchange their goods under equitable conditions."

At the April 12 ceremony in Geneva the GATT convention was initialed by the industrialized nations. This followed five and a half years of Multilateral Trade (MLT) Negotiations, which were dominated by the British-run European Community Commission in Brussels and Alonzo McDonald. McDonald, a friend and collaborator of British Chancellor of the Exchequer Denis Healey, formerly headed the New York-based McKinsey consulting firm, an important intelligence center for profiling and manipulating U.S. and other corporations. He had little trouble pulling his nominal senior, Robert Strauss, into backing, if not fully understanding, the GATT game plan. On the European end, cartelizer Comte Étienne Davignon pitched in to promote GATT.

The agreement is being touted as a victory for "liberalization," with a planned average of 30 percent in tariff reductions to be implemented over an eight-year period, starting next year, coupled with shocking "anti-subsidy" provisions aimed at blocking dirigist programs by member nations seeking to aid the development of their national industry. The details by tariff and sector will only emerge as the signing is followed by ratification discussions in each of the 99 participating countries. Should a nation try to sign the tariff provisions and not the subsidy/countervailing duty code, the U.S. Treasury has already enunciated its eagerness to retaliate, bilaterally and in third markets.

A majority of the nations that participated in the Tokyo Round talks for a new GATT (General Agreement on Tariffs and Trade) pact are appalled by the results. As the *New York Times* noted April 13, "Developing countries boycotted the signing ceremony ... among the more than 60 developing countries that participated in the talks, only Argentina signed the treaty, or even attended the signing ceremony."

The new GATT pact, in short, has already successfully brought about a major "North-South" confrontation between the advanced capitalist sector and the underdeveloped countries. This confrontation can only become more acute as pressures on both the advanced and underdeveloped sector economies increase under the worsening world economic conditions inevitable in the wake of the post-Iran oil price hikes and tightening interest rates around the world. It is not too much to say that the new GATT pact has been jerry-rigged to set up the Third World and also actively promote protectionist warfare among advanced-sector nations.

As Strauss has repeatedly boasted in his sales talks for the new agreement, the agreement's novelty is in its significant prohibitions against the "non-tariff barriers to trade," which translated out of GATT-ese means the prohibition of virtually all national government efforts to foster production. Thus, under the just-initialed Geneva agreements, there is:

- an absolute ban on direct government subsidization of exports;
- provisions for forcing governments to rescind any domestic measures which can be argued to affect their export costs—a provision so vaguely worded as to cover virtually all dirigist measures;
- a major provision requiring governments to open up their own government contracts to foreign bidders;
- provisions for setting up transnationally controlled buffer stocks, as for example a wheat stockpile, as a further lever over GATT member nations' sovereignty.

It is this package which has created widespread anger among the underdeveloped sector and a few perceptive circles in the advanced capitalist sector. The underdeveloped sector nations realize, to various degrees, that no nation has ever industrialized without major government fostering of industry, through collaboration with the private sector or founding state-sector industries or both. Any international trade treaty put together on the axiomatic basis of accepting given levels of world economic output—which today means stagnation and recession conditions—must necessarily lead to breakdown of that pact itself, as increasingly desperate national economies seek to forestall their worsening situations through economic-nationalist measures. No trade treaty worth more than the paper it is written on will accept a fixed or declining economic pie. The central feature of any actually viable international trade pact is the extent to which it implements in a treaty-negotiated manner major net expansions in world productive output and trade. Under such desirable conditions, the treaty participants are merely negotiating the division of what for each of them is a portion of expanded net global wealth. All the participant countries are losers under GATT, with the underdeveloped countries hardest hit in the short run.

If an underdeveloped sector nation had had any doubts with regard to GATT's intentions, such naivete would have been removed by a series of blunt statements by U.S. National Security Director Zbigniew Brzezinski and U.S. Treasury Undersecretary C. Fred Bergsten, connecting GATT to efforts to ban technology transfer to the Less Developed Countries (LDCs).

During President Carter's ill-fated March trip to Mexico, Brzezinski told a Mexican television audience that Mexico—the acknowledged leader of the LDC countries for current government plans to industrialize through heavy government-private sector coordination—must join GATT immediately. Brzezinski's intention was that the transnational GATT institution's newly expanded antidirigist rules would be a huge step to clinching his goal of "preventing the emergence of another Japan on our southern border."

Bergsten was even more direct. At the close of the GATT negotiations last month, Bergsten gave a speech before the Symposia Society of America in Washington, D.C. on the proposed GATT agreement. In his speech, titled "Toward Fairer International Trade: the New Subsidy/Countervailing Duty Code," Bergsten stressed the Carter Administration's commitment to obstructing technology transfer, its determination to punish exporters who do not sign the subsidy code, and its regret that it was unable to win provisions against government export credits. Bergsten added unconvincingly that the third point means the U.S. instead will beef up the Ex-Im Bank (see box).

According to informed sources, Brazil among the developing nations was armtwisted into acting as "point man" for the antisubsidy program. The Brazilians now say they are "already developed" and don't need dirigism.

Not to be outshone by Bergsten's Treasury Department, Cyrus Vance's State Department has been coordinating a "sucker operation" to trap the GATT-provoked LDC nations. If the underdeveloped sector behaves according to anticipated British and allied profile, they will move aggressively at the upcoming May UNCTAD meeting to implement the "Common Fund," a London-promoted buffer scheme designed to raise or stabilize key commodity prices, just as the same circles have done with crude oil. Speaking before the Northwest Regional Council on Emerging International Economic Order on March 30 in Seattle, Vance stated his support for the Common Fund. GATT itself has also been supportive of such measures, especially with respect to setting up a wheat buffer stock.

The final phases of the GATT negotiation coincided with a pronounced cave-in by Europe and Japan to the International Monetary Fund's policy of triage and genocidal chaos in the Third World. This drastic

C. Fred Bergsten on GATT

We sought as major components of the new code... acceptance by advanced developing countries of increased obligations on subsidies, as their industries become internationally competitive. (The GATT codes provide that) counteraction can be in the form of increased import duties on the product concerned, or can involve alternative measures in third market or import substitution cases.... This provision specifically sanctions for the first time countermeasures against subsidized competition in third markets.....

It should be noted that nations which do not accept the obligation of the code, whether industrial or developing, will not receive its benefits. In particular, the U.S. does not intend to apply the injury test to subsidized exports from those nations that fail to sign the code and assume appropriate obligations. In the absence of such obligations, we would countervail subsidized imports without an injury determination as in the past....

We had hoped that the international arrangement on official export credits...would form a basis for cooperation to curb excessive competition in the use of official export credits.... We have seen no real progress to date and now find the only realistic alternative is to meet foreign official export credit financing through aggressive action by our own Export-Import Bank....

postponement of the drive to industrialize the entire world necessarily means that the advanced sector opens itself to the dangers of autarkic regional trade blocs.

Two features of the GATT parleys show the existing momentum of this danger. Europe agreed to open government procurement contracts to foreign bidders, effectively squelching its underdeveloped high-technology domestic sectors to the benefit of IBM, ITT and other U.S. corporations. In return, European governments are being encouraged to cream for a loophole provision that would allow selective trade barriers—against Japan and the more-developed LDCs—if a domestic industrial sector were imperiled by imports.

Japan meanwhile will be forced to accept overall 50 percent tariff reductions (versus a far lesser reduction by the U.S.). Thus far, Japan has refused to sign the code opening up its semipublic Nippon Telephone and Telegraph Co. and other strategic telecommunications-related concerns to foreign bids; Japan's telecommunications and electronics sector until now has been the one remaining such national sector still independent of Anglo-American intelligence control.

In an apparently coordinated move two weeks before the MTNs concluded, Strauss suddenly canceled the trade negotiations with Japan, bitterly protesting over Japan's adamancy on the Nippon Telephone issue. Within days, the European Commission issued an unprecedently provocative, racially slurring report against the Japanese, charging them with exporting the fruits of underpaid laborers whose housing resembles "rabbit hutches." In the long run, such assaults are intended to provoke Japan into preparing an autarkic "Greater Asian Co-Prosperity Sphere" response; meanwhile the Japanese are being blackmailed into the GATT farce.

On the American side, the Geneva agreement's tariff provisions will thus bolster the U.S.'s military-related sectors and triage (through reduction of other

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Problems in the investment area are becoming more serious as well.... We have had particular problems with government intervention in the investment process. ... In recent years, offset requirements have been most common in defense procurement, but they are quickly spreading.... Foreign governments frequently require that, for a U.S. firm to do business with the government, it must agree to transfer technology to the nation.... Inconsistent with the spirit of GATT, these requirements are rapidly becoming pervasive. ... A major objective of U.S. policy must be to achieve multilateral discipline on such inventives and other interventions....

—March 7, in a speech to the Symposia Society in Washington, D.C. titled "Toward Fairer International Trade: The New Subsidy/Countervailing Duty Code"

The MTN affords a major opportunity for broader cooperation. One of the U.S. Government's most important objectives in the MTN was the negotiation of a code regulating the use of subsidies and countervailing measures.... The code provides new guidelines regarding the use of subsidies in the following areas:

1. There is a *much stronger prohibition of industrial export subsidies*, complemented by an updated list of prohibited export subsidy practices. This new list includes practices such as export inflation insurance, exchange risk guarantees, and duty drawbacks in addition to items carried over from the previous GATT list.
2. There is an explicit recognition that *countries must accept responsibility for the trade effects of their domestic subsidy programs*, and commit themselves to *avoid granting such subsidies that adversely affect the trade interest of other countries.*
3. *Domestic subsidies which impair GATT tariff bindings through import substitution are subject to countermeasures* as a violation of GATT commitments. Such subsidies may include, but are not limited to, regional development grants, research and development grants, government provision of infrastructure services and government financing of commercial enterprises, including provision of loans and guarantees on non-commerical terms.
4. *Export subsidies* on industrial products *to third markets are subject to countermeasures*, as are export subsidies on agricultural products which displace the exports of others or involve material price undercutting in a particular market.
5. *Developing countries for the first time are agreeing to phase out the use of export subsidies* as part of their obligations, commensurate with their competitive needs, under the new code.... (All emphasis in original—ed.)

—March 30, from a speech titled "U.S.-Canadian Economic Cooperation: Harbinger of Global Accords," to the Canadian-American Committee.

countries' aerospace tariffs, for example) the U.S.'s deteriorated shoe, textile and related sectors, throwing enough people out of work in the northeastern U.S. that a hue and cry can be raised in favor of the corporativist, labor-intensive Energy Corporation of the Northeast (ENCONO) program being promoted by Lazard Freres' Felix Rohatyn, Gov. Carey of New York, and Federal Reserve Board chairman William Miller, an ENCONO founding member. Beaverbook protégé Rupert Murdoch, published an anti-Third World diatribe in his *New York Post* the day after the Geneva ceremony in an immediate effort to use the new pact to foment protectionist sentiment in the U.S. and move the New York area toward a support for ENCONO.

GATT's attacks on the LDCs and especially Mexico, the push for an autarkical North American energy program of which ENCONO plus a subjugated Mexico would be components, and the jerry-rigged new GATT pact add up to a package to break the world economy into 1930s-style regional trade blocs. C. Fred Bergsten's activities confirm the North American Common Market dimension. On March 30, Bergsten spoke in New York before the Canadian-American Committee, a prominent supporting body for the North American Common Market, an energy and trade scheme directed against the national sovereignty of Mexico, the U.S., and Canada. Bergsten's talk, titled "U.S.-Canadian Economic Cooperation: Harbinger of Global Accords," was dedicated to emphasis on the importance of U.S.-Canadian collaboration to harness the world economy through transnational antidirigist institutions such as GATT, with the concluding portion of his speech being dedicated to a detailed description of GATT's bridles on the Third World.

—*Richard Schulman*

Brascan bids for Woolworths

CORPORATE STRATEGY

The $1.13 billion takeover bid on the Woolworth retail giant by Brascan Ltd. of Toronto is the latest and biggest of a series of politically contested corporate takeovers including the Hong Kong and Shanghai Banking Corporation's bid for Midland Marine Bank and the aborted attempt on McGraw Hill by American Express.

Brascan's move was timed with major initiatives launched by a tightly interwoven network of British intelligence-linked individuals and entities toward Britain s espoused political goal of consolidating all of North American into a single war economy and trade war bloc or "Common Market" by the mid 1980s.

The Brascan bid began April 8 on the advice of consultant David Yunich, former president of Macy's and was promptly opposed by the Woolworth board of directors, who subsequently filed suit in a U.S. federal court in New York State. The suit cites both Brascan and the Canadian Imperial Bank of Commerce as defendants, charging among other things unprincipled and unethical collusion between those entities. The CIBC is bankrolling $700 million worth of Brascan's bid, the remaining $400 million coming from Brascan's sale of its Brazilian power subsidiary to the Brazilian government late last year.

The Woolworth suit also charges that Brascan's objective is to largely dismantle the retail chain and its international holdings for the purpose of generating liquidity for subsequent "resource and energy speculations."

Although the Brascan bid is seemingly complicated by a number of factors, including the existence of a rival bid for Brascan itself by Edgar and Peter Bronfman's Toronto-based holding company Edper, already a substantial minority shareholder of Brascan, the details on the bid gleaned by this publication, combined with the information in previous *Executive Intelligence Review* reports on the North American Common Market proposal, combine to identify the akeover attempt as part of Britain's North American geopolitical design

Brascan and British intelligence

Brascan, Ltd, a holding company with assets largely in energy, resources and retail foods and liquors, constitutes one of several extensively interlocked British-Canadian corporate entities run by British intelligence since World War II. Its chairman and chief executive officer, M.H. (Jake) Moore, for example, is a close personal and business associate of Walter L. Gordon, honorary president and former chairman of the Canadian branch of the London Royal Institute of International Affairs.

Both Moore and Brascan director A.J. MacIntosh, himself a CIIA director, are directors of Gordon's firm, Canadian Corporate Management of Toronto. Brascan's board also includes Henry Borden, CIIA director and son of CIIA founder and former Canadian Prime

Minister Robert Borden. Additionally, both Moore and MacIntosh are directors of the Canadian Imperial Bank of Commerce and of the Hudson's Bay Company of Winnipeg. Other relevant business connections include Moore's presence on the board of Northern Telecom-Bell Canada, whose chairman, Robert Scrivener, a leading Canadian Knight of the semi-secret Order of St. John of Jerusalem, also sits on the CIBC board of directors. Finally, Brascan director and CIIA director Borden chairs the resources and energy firm Brinco, whose board includes Sir Mark Turner, former chief of the British Ministry of Economic Warfare during World War II.

This nexus of protagonists in the Woolworth bid have also taken other actions:

• On April 11, a Canadian federal commission headed by Knight of the Order of St. John of Jerusalem member and former British Columbia supreme court justice John V. Clyne released a report defending the 1977 formal merger of Bell Canada Ltd. and Northern Telecom Ltd. The report said that "the Bell-Northern Telecom complex is of striking advantage for Canada and an essential base for any kind of Canadian technological sovereignty." The same report recommended a general waiver of antitrust restrictions in Canada on the basis that "the U.S. is the only country in the Western world that can afford to cling or pay lip service to strict concepts of antitrust legislation and totally free competition." The Clyne Commission report was commissioned by the Canadian Federal Communications Ministry under Jean Sauve, wife of a CIIA director. The ministry is a major patron of Scrivener's Bell Canada-Northern Telecom empire.

• On April 13, Canadian federal Bureau of Competition chief Robert Bertrand announced that the investigation from an antitrust standpoint of the takeover of Hudson's Bay Company by the Thomson family of London and Toronto has been closed. Completion of the Thomsons' $640 million bid was subsequently announced in the *New York Times* April 19. The Thomsons have announced on several public occasions that the greater portion of their investments into North America will center on *energy and related resource speculations.*

Brascan and "British North America"

The actual motivations for the Brascan bid on Woolworth's can only be appreciated from the standpoint of the policy goals of the political circles and institutions of which the Brascan corporate entity is part. The Brascan bid and related British-coordinated merger and takeover activities in North America are part of a design to unite "all of North America from Panama to the Arctic Circle into a North American Alliance for trade war with other economic blocs by the mid-1980s," to quote Telecom chief and Knight of St. John, Robert Scrivener in an interview in September 1978.

The same British geopolitical design is also popularly known as a proposal for a "North American Common Market" between the U.S., Canada, and Mexico, as advocated by investment bank Lazard Freres chief Felix Rohatyn as well as by Seagram's boss and Knight of St. John, Edgar Bronfman in the last year.

Jake Moore's personal role in organizing for the "Common Market" design was reviewed by Canadian External Affairs Minister Donald Jamieson in Parliament in Ottawa Jan. 29 in response to a question concerning the strengthening of the Canada-U.S. relationship.

He said "Over the last two or three years we have had an independent group headed by a gentleman whose bona fide are I think, impeccable in this regard, Mr. Jake Moore, looking at how we have been represented in the U.S. and how we can improve our representation...(we) will be following up on that assignment and looking at the recommendations we have received from Mr. Moore and also from our present ambassador in Mexico, Mr. Langley, who had a special assignment."

The London Royal Institute's major task force for organizing the desired "alliance" is known as the British North America Committee for which the C.D. Howe Institute in Montreal led by former Kissinger assistant, Carl Beigie, and the National Planning Association in Washington D.C. are subsidiary branches. Sir Mark Turner, Ralph I. Strauss of the Macy's family (whose Eunuch advised Brascan on the Woolworth move), Maurice Sauve, CIIA director and husband of the Clyne Commission report patron and Canadian Communications Minister, as well as Ian MacGregor of Lazard Freres and George Shin of the First Boston Corp. are on the BNC. Notably, the latter firm has managed many of the larger Canadian takeovers of U.S. firms in the past two years.

It is not unlikely that these circles view the takeover of Woolworth's, a traditionally conservative "above board" retail firm, as an essential step in opening the U.S. to the China and Hong Kong textile market. As well, it is a means of bankrolling the consolidation of North American strategic resources and energy under a "Common Market."

—*Peter Wyer and Leif Johnson*

INTERNATIONAL CREDIT MARKETS

Interest rates tightened in Europe and Japan

Federal Reserve chief G. William Miller's decision to delay for the moment any further increases in U.S. interest rates reflects not only mounting domestic opposition to tight credit but strong pressures from America's Western European and Japanese trading partners. The capital markets of the former "hard currency" countries, West Germany and Japan, have already been badly destabilized by the heavy outflow of funds into higher interest-bearing dollar-denominated securities. Another upward ratchet in U.S. rates would attract still larger hot money flows and might pull the plug on the highly vulnerable Japanese and European credit structures, throwing these economies into a deep recession.

"International developments seem to be working against a move to raise domestic interest rates," First Pennsylvania Bank economist Joseph Bench stated in the April 12 issue of the bank's "Money Markets" newsletter. "A Fed tightening move would undoubtedly invite considerable criticism from our trading partners who worked so hard to stem the dollar's fall last year."

Morgan Guaranty's chief economist Rimmer de Vries also agrees that international considerations played a role in Miller's decision not to tighten. Asked whether he thought the Fed was getting a lot of flak from the Europeans and Japanese on the question of U.S. rates, de Vries responded, "I wouldn't say Miller was getting a lot of flak. My view is that the Fed thought it just wouldn't look right to force the Bank of Japan into raising its discount rate and then turn around and raise rates here."

On Monday, April 16, the Bank of Japan announced that it had raised its minimum financial institutions from 3.5 to 4.25 percent, the first such rate hike in four years. The Bank of Japan's hand was forced by the near-collapse of the government bond market which resulted last week in the Finance Ministry's decision to cancel its plans to issue 1.3 trillion yen in new government bonds this month. Investors have been steering clear of yen-denominated bonds because of fears of rapidly accelerating Japanese inflation brought about by the jump in the price of imported energy and raw materials and aggravated by the yen's recent sharp depreciation on international currency markets. Wholesale prices registered a sharp 0.9 percent rise in both February and March.

Significantly, Bank of Japan head Morinaga raised the discount rate in the face of strong protests from leading industrialists, top officials in the ruling Liberal Democratic Party, and other government agencies, such as the Ministry of International Trade and Industry, all of whom are warning of a Japanese economic slowdown. For example, Seishi Kato, president of Toyota Motor Company's sales arm, criticized the central bank for relying too much on "deflationary policies to control inflation." Japanese industry is being squeezed by the simultaneous shrinking of its export markets due to the Carter Administration's protectionist policies and rising raw materials costs. Ample low-interest credit is the Japanese economy's major remaining prop.

According to an article in the April 18 issue of the West German financial daily *Handelsblatt*, Morinaga decided to flout adverse government and business opinion because he believes the Bank of Japan must assert an "independent" authority. Bundesbank chief Otmar Emminger has also argued recently that the West German cental bank's supposed constitutional independence allows him to tighten credit despite the opposition of Chancellor Schmidt and much of his cabinet. Thus, it would appear that both Emminger and Morinaga have been manipulated by the Anglo-American faction into believing that they can stabilize their respective capital markets through small upward adjustments in interest rates. However, if Miller had raised U.S. rates this week as Blumenthal suggested, the interest rate differentials with West Germany and Japan would have again been disrupted and Morinaga and Emminger would be right back where they started. The Morinaga-Emminger approach to tackling inflation would have been discredited.

If the Fed does tighten, the British and their allies in the U.S. financial community risk blowing the deals that they have negotiated with the Western European and Japanese governments over the recent period. For example, the Schmidt government and the West German banking establishment have reportedly agreed to delay for two years their plans to establish the European Monetary Fund as an international development bank, after being told by the British that any opposition to the International Monetary Fund and its zero-growth austerity policies would be considered a "threat to NATO." In return, the Germans have been reassured that the Carter Administration intends to induce only a "mild recession" in U.S. economic growth. If Miller had imposed a harsh credit crunch here, this would mean that the Anglo-American faction was "dropping the mask," leaving little doubt that their actual goal is a controlled depression and the Schachtian restructuring of the world economy.

—*Alice Roth*

Miller holds back on new credit tightening

Last week the *Executive Intelligence Review* advised its consulting clients that Fed Chairman Miller would not push for higher interest rates at the Federal Open Market Committee meeting on April 17. The *New York Times* and a host of seasoned economists were predicting the opposite. Those who followed their advice got burned on Tuesday when Miller let it be known that he opposes another interest rate hike at present, and interest rates fell sharply in the government and corporate bond markets in response.

In an interview published in the *Times* April 18, Miller explained that he opposes a new hike in interest rates because an economic slowdown is already underway in the U.S. We suspect, however, that the primary motivation was international. Like his predecessor Arthur Burns, Miller keeps one eye on what his counterparts in Japan and West Germany are thinking. The steady jacking up of U.S. interest rates since late last year was designed to prop up the dollar and attract capital back to the U.S. It has done that to such an extent that the West German and Japanese government bond markets are now badly hurting. Both nations have been forced to raise interest rates—despite the pernicious consequences for their industrial sectors—to close the wide differential with U.S. rates (see International Credit). Another upward blip in U.S. interest rates at this time might have been too much for the European and Japanese to swallow.

As to where interest rates are now headed, there is as much confusion in the money markets as there was before the FOMC meeting last week. Some market analysts think that the FOMC may actually have decided to tighten rates another notch, given the enormous amount of pressure for higher rates coming from the "recession now" lobby in the Administration—Treasury Secretary Blumenthal, "Inflation Fighter" Alfred Kahn, Council of Economic Advisors head Charles Schultze, et al. However, the FOMC gave no clear signs in the market April 18 of what decisions had been taken in its inner sanctum. The Federal funds rate, the rate over which the FOMC has direct control, hovered around $10^{1}/_{16}$, the same range it has held to for weeks.

There is little uncertainty about what the nation's regional banks are thinking about interest rates. The Southwest Bank of St. Louis dropped its prime rate from $11^{1}/_{2}$ to $11^{1}/_{4}$ percent on April 17 in a gesture of opposition to continued high interest rates. Southwest Bank was one of the banks which initiated the short-lived drop in the prime rate in late January of this year. I.A. Long, chairman of the bank, attributed the current interest rate move to the decline in a number of key measures of national economic activity—retail sales, consumer confidence, etc.—which suggest a lull in future loan demand.

It's no secret, however, that the small regional and country banks have gotten the foul end of high interest rates and have actually been lending at rates below prime for months to keep their long-standing customers supplied with credit at prices they can afford. The problem the regional banks have run up against is credit availability—they have been unable to compete for lendable funds at the current prohibitively high rates. The money center banks, on the other hand, who have taken advantage of the reflow into the dollar by issuing certificates of deposit in London, are flush with funds. The Federal Reserve has in effect created a two-tier credit system with its high interest rate policy, in which regional banks experiencing heavy loan demand are the banks cut off from credit.

How does Miller's latest pronouncements on Fed interest rate policy affect this situation? George Harbin of Dean Witter Reynolds said in an interview with *EIR* that he anticipates that Milller's backoff should have an "equilibrating" effect on world money markets. He thinks the dollar rise and the capital reflow will moderate slightly in the coming weeks. "We expect things to go sideways for a while," he reported.

Toward mandatory controls

While international considerations have for the moment forced the Fed to abandon its hardline approach to high interest rate and recession, new recession scripts are already coming from the scenario specialists. Former Fed Chairman Burns, who is now working as a consultant to Lazard Freres investment bank in New York, surfaced last week at the American Enterprise Institute. Burns contended that if the current "boom" in the economy continues unchecked, "six months down the road" the Administration "may be driven" to impose mandatory wage and price controls.

Another ominous note is the fact that Senators Helms and Proxmire have scheduled full Senate Banking Committee hearings for May 24 on lifting the President's authority dating from 1969 to impose credit controls. The Administration and the Federal Reserve Board have already leaked to the press that they would oppose any such rescinding of presidential authority, suggesting that credit controls are an option they will go with if given the political maneuvering room.

—*Lydia Schulman*

FOREIGN EXCHANGE

Dollar, sterling get brass knuckles treatment

The official November 1978 agreement among the U.S., West German and Japanese central banks to bolster the dollar faded out of the picture with the dollar's recent appreciation, "bubble" inflows into the U.S. currency, and oil-related pressures on the mark and yen. Now the situation has made a sharp, messy turn all the way from November, with the Bank of Japan and the West German Bundesbank taking tough behind-the-scenes actions and threats to keep flows into the dollar and sterling from drying up West German and Japanese credit markets.

The dollar sagged to 1.89 marks April 18, while the pound dropped a full percentage point vis-à-vis the mark to 3.9261 marks from 3.9674 the day before. The dollar decline was attributed by Frankfurt bankers chiefly to what they described as a German-led sterling selloff; the dollar is the vehicle currency for switching out of pound holdings.

Frankfurt and Tokyo, from a defensive posture, are out to preempt the strategy summarized earlier this year by Sir George Bolton, former chairman of the Bank of London and South America, who specified a dollar upswing, destabilizing Europe and Japan, that would soon devolve into a regional trade-war situation with the dollar wiped out once more. The recent credit-tightening by the Japanese and West German authorities (see International Credit) has only marginal effect in leveling international interest-rate differentials. However, it is backed by a cold threat to colossally dump dollars should U.S. interest rates move to the 13 percent level. According to West German sources, the Bundesbank has the concurrence of the Big Three German banks on this threat. Indeed, the week of April 16 one of them began selling off U.S. securities

GOLD

Treasury reverses policy on gold sales

In what may be a significant shift in Carter Administration policy, the Treasury Department announced on April 18 that it has decided to reduce the amount of gold sold at its monthly auction from 1.5 million ounces to 750,000. The Treasury decision appears to be a concession to Western European government and business leaders who feel that gold must play an important role in the world monetary system and object to the Treasury's efforts to depress the gold price artificially by dumping U.S. reserves on the open market.

The Treasury's formal statement to the press read as follows: "The amount of the monthly sales is being reduced in light of improved conditions in the foreign exchange markets and the fact that gold no longer appears to be a destabilizing factor in these markets."

The price of gold bullion soared on April 18 immediately following this announcement from $233.20 an ounce at the afternoon fixing in London to $241 in late afternoon trading in New York. The price had previously been extremely stable at the $240 level. However, on April 11, reports that Treasury Secretary Michael Blumenthal was pressuring Miller to tighten credit and forcibly deflate the U.S. economy had caused the price to drop to around $230-$233.

News of the Treasury's turnabout appears to have leaked out among German banking circles well in advance of the public announcement. Many U.S. traders were caught off guard by the strong demand for gold at the Treasury's last auction, held on April 17. The Treasury received bids for 2.2 million ounces on the 1.5 million being offered. As usual, the large West German and Swiss banks, including Dresdner Bank, Deutsche Bank, Swiss Bank Corporation, and Union Bank of Switzerland, dominated the bidding. According to German securities brokers in New York, German investors began liquidating their holdings of dollar-denominated securities and purchasing gold as soon as it became clear that Miller was not about to hike U.S. rates.

and sending out signals that it considers the dollar too high.

So Europe and Japan have thrown an inconclusive, short-term spanner into the works, that is, into the confident London predictions summarized April 17 by Bank of New York economist Harvey della Pena: U.S. rates draw funds out of Europe, then the dollar crashes, then everyone is in trouble.

It should be added that the pound's rough treatment by the West Germans was compounded in the markets by rumors that the Labour Party will win the May U.K. elections, implying an "Establishment" infight over how far and how fast to move with Tory Margaret Thatcher's frank foreign and domestic war policies.

—*Susan Johnson*

Future trends in the gold price fundamentally depend on whether the Europeans move ahead on their previous plans to build a gold-backed world monetary system based on European and Soviet collaboration to jointly industrialize the developing sector. Should this occur, the gold price will probably be stabilized at around $240. However, should Europe continue to hold back out of fear of confronting the International Monetary Fund, the London banks and their allies in New York and Washington could use the present easing in U.S. credit conditions to generate another round of inflationary commodity speculation and run the gold price up to $280 and beyond.

—*Alice Roth*

BRITAIN

British to close Europe's only integrated iron, steel, and tube-making plant

Union leaders have given up trying to figure out why the British Steel Corporation would want to shut down a fully integrated iron, steel and tube-making plant—the only one of its kind in Europe—which is located in the heart of Britain's auto manufacturing belt. After waging a two-year long battle to keep production going at the Corby steel plant and its sister specialty steel factory at Bilston, the union chiefs have come up against a wall in their efforts to convince BSC bureaucrats of the plants' commercial viability.

Bilston's fate is being viewed by BSC as a test case of how far the steel unions are prepared to cooperate in the corporation's retrenchment plans. The Iron and Steel Trades Confederation (ISTC), which represents a majority of the Midlands' steelworkers, had threatened to call a national strike last year over what it claimed was the premature rundown of the Bilston plant. But the union organization has succumbed to BSC propaganda that overall economic growth and the demand for steel have entered a permanent trough. It also fears that a strike at Bilston might worsen industrial relations and precipitate further plant closures in the steel industry.

Although it will mean a 32 percent unemployment level in Corby and the effective destruction of a steelmaking town, which has been described as an "industrial island in an agricultural ocean," union leaders have acquiesced to BSC's strategy. With great bitterness, the ISTC has agreed to the closure of the two plants and settled for negotiating the best possible terms for those 8,000 skilled but older workers who have been thrown on the scrapheap by British Steel's cost-cutting policy.

There is no mystery surrounding British Steel's stone-faced response to the plight of the Bilston and Corby workers, who just ten years ago relocated their families to the area as a result of a major BSC recruitment campaign. Only two years ago they were encouraged to sink their savings into buying homes which will be virtually worthless when the steel mills close.

Using the code word "rationalization," BSC has implemented measures to strip down the old, high-cost steel industry in Britain in order to make way for the more streamlined and competitive line of products which fits in with BSC chief Sir Charles Villiers' vision of Britain's technological future. In an effort to dump some of its oldest and most inefficient capacity, BSC underwent major surgery last year, when over 17,000 steelworkers were permanently dismissed. To the extent that an upgrading of the British steel industry takes place at all, it will be for the sole purpose of supplying government defense contracts.

The fact that a relatively modest investment of about $30 million in either an electric arc furnace or other still experimental steelmaking processes to replace the obsolete open-hearth furnaces could restore the Midlands plants to the profitability they once enjoyed does not move BSC. Nor does the fact that British Steel will lose its market in the auto manufacturing field, for which the plants slated for shutdown have provided specialty orders on short notice.

—*Marla Minnicino*

COMMODITIES

Kahn puts U.S. metals producers in inflationary price rise

U.S. producers of copper, zinc and lead are caught in a bind: they must either link their producer prices to the major commodities trading markets in London or New York, or face the wrath of President Carter's wage and price control council, which is prepared to issue sanctions against producer prices it considers too high.

Wage/price control "czar" Alfred Kahn has dictated a price-guidelines approach to U.S. producers of metals which observers in industry, Washington circles and investment houses all agree is bizarre, to say the least. Taking each metal separately, Kahn has declared that if a few major corporations producing that metal agree to link their prices to the New York Commodity Exchange (Comex) daily rates, that metal will be considered excluded from voluntary price guidelines.

Thus, copper—whose price has skyrocketed from an average 68 cents in 1978 to a present range of between 97 cents and a four-year record of $1.05—is exempt from controls because Kennecott, Anaconda, and Cities Service have contractually linked their price to the Comex rate since 1975.

Zinc and lead however, are not exempt, despite the fact that zinc prices, just like copper, are strongly affected by international marketing conditions and by production costs abroad.

U.S. industry sources report that zinc producers are under pressure from "financial advisors" to enter into a Comex-linked pricing arrangement to free themselves from the guidelines.

Meanwhile, nickel—whose price rose 70 cents in three weeks, largely due to a strike at Canadian Inco—has not been touched by Kahn's council. Publicly, Kahn has argued that there are so few nickel producers, that the companies can be trusted to enact voluntary controls without government surveillance. Kahn's pronouncement on nickel, however, was probably motivated by the fact that on April 23, nickel will begin to be traded on the London Metal Exchange (LME), a foot in the door to being traded on the Comex.

"Free enterprise" unmasked again

How could such a policy ever be justified, considering that the 5 to 30 percent rise in world metals prices since mid-November 1978 demonstrates conclusively that linking prices to open market commodity exchanges is by no means "anti-inflationary"?

The justification which the Administration in Washington has used is the following: in the case of metals producers, the government is equally concerned that corporations obey antitrust legislation as with keeping prices down.

Although linking prices to the Comex may entail large metals price rises, Washington has argued, there will at least be "free competition" governing these prices in an "open market" environment.

Specifically, there are known cases where U.S. metals producers have been slapped with expensive and damaging anti-trust suits for *lowering* their prices to levels "overly competitive" with smaller producers. In order to cover against possible legal actions, the metals companies are forced to link their price to Comex rates, to prove their prices are neither too high nor at unfair dumping levels.

The effect of Kahn's policy is that it forces U.S. metals producers into the exact same trap as domestic oil companies which fought for deregulation. These oil companies support lifting U.S. domestic oil prices to international levels rigged by British Petroleum and Royal Dutch Shell, two institutions which are at the center of British banks' financial policy to trigger a devastating U.S. depression.

Similarly, by forcing metals prices to be fixed to Comex, Kahn is really tying U.S. materials costs to the LME—since the LME sets the pace for Comex rates every 24 hours.

—*Renée Sigerson*

Fed approval of British bank takeovers challenged in court

Attorneys for the U.S. Labor Party filed a Petition for Review of the Federal Reserve Board's March 16 approval of the efforts of the Hong Kong Shanghai Banking Corporation and Standard Chartered banks to take over U.S. banks. Those two banks have been charged with financing and controlling the world's $200 billion illicit narcotics trade by the U.S. Labor Party in documentation submitted to the Federal Reserve last October.

The USLP petitions seek to halt the HongShang's attempted purchase of New York's second largest bank, the $14.3 billion Marine Midland and Standard & Chartered's purchase of Los Angeles' $5.3 billion Union Bank.

Informed sources in New York hinted April 17 that New York State Banking Superintendent Muriel Siebert is waiting before she passes official judgment on the HongShang purchase of Marine Midland. They say Siebert believes that a strong public consensus around the case will be built and that she is hesitating to watch developments.

Superintendent Siebert is also reported fighting the Fed and the Controller of the Currency for the right of jurisdiction to rule over the attempt by National Westminster Bank, Britain's largest banking group, to purchase New York's $4.4 billion National Bank of North America. Although Nat West Chairman Robin Leigh-Pemberton April 16 concluded payment of $429 million to CIT Financial Corporation, the holding company for NBNA, the marriage is not quite consummated. NBNA, unlike Marine Midland, is nationally chartered, not New York State-chartered, but "we have passed on nationally chartered banks' acquisitions before and believe we have the precedent to do so again," a source close to the New York State Banking Department quoted one official as saying yesterday.

The public drive against the British banks whose drug-related activities are harming a generation of American youth will be spearheaded on the East Coast by the New York-New Jersey Anti-Drug Coalition, which was founded at an April 8 meeting in New York City addressed by USLP National Committeeman Dennis Speed and Farad Salahuddin of Newark Community Services, Inc., and attended by several area parents' associations, trade unions, and elected officials.

That momentum has been spurred by the USLP's exposé on the British banks' control over international narcotics, *Dope Inc: Britain's Opium War Against the United States*. It has already sold almost 30,000 copies nationwide and prompted the formation of Anti-Drug Coalitions in Michigan, Connecticut, Maryland, and other states.

Miller's "gross malfeasance"

The USLP intends to prove in court that there was "gross malfeasance" of duty by Fed Chairman Miller and his collaborators on the Fed Board when they issued a Board Order March 16 permitting HongShang and Standard Chartered to make their purchases. Labor Party investigators, in two separate submissions to the Fed in October 1978 and this January, documented the step-by-step details of the British banks' deep involvement in the world drug trade. Their financing of the production and shipment of opium poppies in Southeast Asia's Golden Triangle, as well as the financing of all phases of refining, shipping, and marketing the drugs into the U.S. was detailed.

But Miller's Fed Board, by railroading through the banks' applications for purchase on March 16, dismissed the USLP charges, saying the Board "is unable to accord them sufficient weight or dignity to constitute a determinative adverse consideration relative to these applications." In fact, the USLP will charge that Miller improperly squelched his own Fed staff's serious investigation into the drug question, which included still-classified queries going as far as the Justice Department's Drug Enforcement Agency. Disapproval of the HongShang and Standard & Charter's questionable "business practices" reached high enough into the government that Federal Reserve General Counsel Thomas O'Connell himself was directing the pursuit of the investigation—before his untimely death last December.

If New York State Banking Superintendent Siebert does rule out the HongShang acquisition of Marine Midland, then the stage is set for a national fight—including a full congressional investigation. New York bankers opposed to the British invasion say their immediate tactic will be to press through the New York state legislature in Albany a bill Siebert wrote. This would give her more control over foreign bank purchases.

Once a challenge such as this is mounted against the Fed, a movement is expected to develop in Congress and among state bank supervisors nationally, demanding a full Congressional investigation. It was in order to head off the growing bandwagon of concern represented by Superintendent Siebert's February demand that House Banking Committee Chairman Henry Reuss (D-Wis.) hold major hearings on the British bank takeovers that Miller originally forced through the March 16 approvals.

—*Kathy Burdman*

Revive the policies of Friedrich List, American System fighter

This week, *Executive Intelligence Review* inaugurates a new column devoted to the policies and programs known as the American System.

We have regularly reported in our economics columns and features the assault launched against U.S. banking, industry, and the economy as a whole by Great Britain.

We have also reported how certain U.S. officials—notably Energy Secretary Schlesinger, Federal Reserve Chairman Miller, and National Security Advisor Brzezinski—have essentially committed treason against the United States by implementing policies and programs long associated with the British System: deindustrialization, energy and economic austerity, and labor intensive technologies.

While the best of the American System economists lived during the 18th and 19th centures, the issues of the fight they waged then against the British System—identified with Adam Smith—are today the issues around which the fight for the European Monetary System revolves.

That was made clear this week by the New York Council on Foreign Relations which has begun to release the results of their "Project 1980." In one volume in a projected total of 25-30, the New York CFR identifies three general economic outlooks which still divide the world: one is the Marxian outlook, the other is the neomercantilist which they identify with Alexander Hamilton and Friedrich list, and the third is the "liberal" outlook of Adam Smith. The New York CFR minces no words: most of the Third World and certain sectors of the advanced sector embrace either the neomercantilist or the Marxian models which in any case are fundamentally similar models. How the world is to be reorganized along "liberal" lines is the subject of this volume.

Why does the New York CFR single out Friedrich List? List was the 19th century German economist most responsible for setting the foundations for a modern industrial Germany. He organized to advance the Grand Design for world humanist development by spreading the American System throughout the world. List created and led the German Zollverein (Customs Union) and conspired with the American Revolutionaries Mathew Carey, General Lafayette, and others to extirpate the British disease of Adam Smith and William Pitt.

Were he alive today, List would neither capitulate to the British enemy nor tolerate any "politically expedient" compromises with the fate of the European Monetary System's new world economic order. It was a new world economic order that List and his allies proposed be founded on the principles of the American System of industrial development.

In May 1843, List polemicized against those who cried: "We do not want factories" (excerpted below). He identified the environmentalist "greenies" of his day and the aristocratic Junkers, along with their counterparts, as the conscious perpetrators of genocide and "devastation by war and pestilence" of the entire globe:

" 'But we do not want factories!' O.K.—then one would have to first of all reduce the expenses and strength of the army; large budgets just cannot be afforded in countries without industry.

"—Then one should not talk about art and science, because without national wealth both are exotic plants.

"—Then one should not say anything about the inviolability of the nation or anything about a great future, because the future of the nation rests on its power, and its power rests on its wealth and its wealth rests on a harmonized development of its productive forces, and so, in our day, preeminently on manufacturing.

"That's how some experts judge it. Others turn the sentence around and say: factories are accompanied by evil conditions; and up to now no cure has been found for these evil conditions, so we do not allow any new factories, and let the old ones die out. This is the opinion of sentimental belletrists, country Junkers, who don't see beyond the furrows of the field, bureaucrats who only exist in their documents and do not know where their bread comes from, philanthropists, those who continuously keep their heads up in the clouds while falling into every puddle, scholars whose natural understanding is not great enough to digest all that they have learned.

"Men of intellect and scholars with practical understanding compare the misery that now prevails among the masses with the misery that prevailed among the masses in previous periods (famine, starvation, the devastation of war, pestilence), and when they find that the recent period compares very favorably they come to the conclusion that one must not throw away a superior new kind of fruit just because weeds grow with it too; instead, strive to fight the weeds."

—*Kathy Stevens*

Bilderberg cult plots oil war

EIR publishes scheduled attendance at Austrian gathering

A meeting of monarchists, cultists, and their supporters will convene semi-secretly in Baden, Austria this April 27-29—the "Bilderberg Group"—and a list of the participants has been provided to *Executive Intelligence Review* by European sources. While the formal agenda is not known except to participants at this time, it is known who these gentlemen are. It is also known what their relationship to present, dangerous political and economic developments is. According to the sources, this year's "Bilderberg" meeting will consider itself a success only if the near-term result is an "oil shortage" devastating to the world's industrial economies.

The most indicative, apparently late addition to the list of conspirators—one who will help define the meeting's real agenda—is Bernard Lewis, whose invitation to the Baden rendezvous reportedly came only after the full scope of British success in toppling the Shah of Iran became clear. Lewis is the world's foremost expert on so-called Islamic fundamentalism, and the author of the "Bernard Lewis plan" for Balkanization of the Middle East. That plan focuses on the intelligent uses to which Islamic fundamentalism and feudalist tribal separatism can be put to destroy both OPEC and the oil-producing Arab nation-states that comprise OPEC.

Lewis's name, according to European sources, was not included in the list issuing from the original Bilderberg steering committee meeting held this past fall, when agenda items were set, discussion-paper authors designated, and invitations drawn up. Between

European Visitors

In the past week the airports of Bonn, West Germany and Paris, France have been besieged by an influx of important personages. George Ball, a partner in Lehman Brothers, Kuhn Loeb and former Undersecretary of State; Helmut Sonnenfeldt, former State Department Counsel under Henry Kissinger; Milton Friedman, a Nobel Prize-winning economist for Count Otto von Hapsburg's Pan-European Union and advisor to several American presidents; and Leslie Gelb, Assistant Secretary of State and former New York Times diplomatic correspondent—all arrived in one place or the other for ostensibly different reasons.

Henry Kissinger just arrived in Japan for a meeting of the Trilateral Commission. Friedman, Ball, Gelb and Sonnenfeldt have arrived in Europe for meetings of the Bilderberg Group, the Nuclear Regulatory Commission, the "SHAPEX" discussions of the NATO countries. They may also attend other, unannounced rendezvous of monarchists and their supporters who are seeking ways to destroy the European Monetary System and those basic industrial capabilities of "Free World" nations which the EMS would expand—with Japanese support—to develop the Third World in order that nuclear war over "hot spots" might be avoided.

Also arriving in Europe this week was the chairman of the U.S. Labor Party, Lyndon LaRouche, a presidential candidate in the USA. LaRouche is broadly credited with being the architect of the European Monetary System, and will pressure EMS leaders Schmidt of West Germany and Giscard of France to act forcefully on behalf of their adopted policy—warning them that their failure would mean a devastating "oil shortage" and very probably world war. LaRouche is aware that Friedman, Ball, Gelb and Sonnenfeldt are there. And it appears that Friedman, Ball, Gelb and Sonnenfeldt are aware that LaRouche is there.

that time and this, the plan to which Mr. Lewis' name is attached has been set in motion. "Islamic fundamentalism" of the cult variety, authored by the British secret service during the 19th century and syndicated throughout the Middle East into the Asian subcontinent, has reduced Iran to chaos, threatens an immediate like result in Pakistan, poses direct threats to Turkey, to Afghanistan, and to the leading oil-producers centered around Saudi Arabia. The blackmail capability inherent in British-led "Bilderberg" conspirators' control over these "forces of revolution" is compounded by the "Camp David" marcher-lord pact between Israel and Egypt. Cut production and raise prices, the oil-producers are told. Or face "Islamic revolution" spilling

Bilderberg in Baden: who'll be there

Provisional list of participants

Lord Home of the Hirsel, K.T.: Chairman
Ernst H. Van der Beugel: Honorary Secretary General for Europe, Professor International Relations, Leyden University, Director of Companies
William P. Bundy: Honorary Secretary General for U.S.A., Editor "Foreign Affairs"

Austria

Androsch, Hannes: Minister of Finance and Vice-Chancellor
Apfalter, Heribert: President and General Manager, Vereinigte Osterreichische Eisen- und Stahlewerke, Alpine Montan Aktiengesellschaft .
Broesigke, Tassilo: Member of the National Council of the Austrian Freedom Party
Fischer, Heinz: Groupleader of the Austrian Parliamentary Socialist Party, Member of the National Council
Igler, Hans: President, Federation of Austrian Industrialists
Koren, Stephen: President, Österreichische Nationalbank
Kreisky, Bruno: Federal Chancellor of Austria
Lang, Erwin: Federal Minister of the Interior
Malzacher, H. Michael: Senior Manager and Chairman of the Managing Board, Steyr-Daimler-Puch
Mock, Alois: Groupleader of the Austrian People's Party, Member of the National Council
Portisch, Hugo: Former diplomatic correspondent and columnist
Prinzhorn, Thomas: President, Anton Mosburger, A.G.
Steiner, Ludwig: Ambassador
Taus, Josef: Chairman of the Austrian People's Party
Treichl, Heinrich: Chairman of the Managing Board Creditanstalt-Bankverein
Vranitzky, Franz: Dep. Chairman of the Managing Board Creditanstalt-Bankverein

Belgium

Janssen, Daniel: Chairman, Belgian Federation of Chemical Industries
Lambert, Baron: Chairman Groupe Bruxelles Lambert, S.A.
Simonet, Henri F.: Minister of Foreign Affairs
Ypersele de Strihou, Jacques van: Chairman, Monetary Committee of the E.E.C., Chief of the Cabinet of the Prime Minister for Economic and Social Affairs

Canada

Griffin, Anthony G.S.: Chairman, Home Oil Co., Ltd.
MacDonald, Donald S.: Barrister, McCarthy & McCarthy
Neufeld, E.P.: Assistant Dep. Minister of Finance
Savory, Roger M.: Professor Islamic Studies, University of Toronto

Denmark

Christophersen, Henning: Minister of Foreign Affairs
Nøorlund, Niels: Editor, Berlingske Tidende
Søorensen, Svend O.: Managing Director, Den Danske Bank

Finland

There will be no participant for Finland this year

France

Beullac, Christian: Minister of National Education
Esambert, Bernard: Chairman and General Executive Officer of the Compagnie Financière du Groupe Edmond de Rothschild
Monod, M. Jérôme: Président du Secrétariat des Missions de L'Urbanisme et de l'Habitat; Ancien Directeur de Cabinet de M. Chirac; Conseiller référendaire à la Cour des Comptes
Montbrial, Thierry de: *Author of Working-paper Subject II,* Directeur de l'Institut Franqis des Relations Internationales; Former Chef du Centre d'Analyse et de Prévision au Ministère des Affaires Etrangères; Professor of Economics, Ecole Polytechnique
Pitti-Ferrandi, Robert: La Compagnie Financière du Groupe Edmond de Rothschild
Rocard, Michel: Membre Parti Socialiste
Seillière, Ernest: Directeur Général adjoint de la Compagnie Générale de l'Industrie et de Participations

Federal Republic of Germany

Breuel, Birgit: Minister of Economics and Transport of the State Lower Saxony
Hausmann, Helmut: Member of the Deutsche Bundestag and free lance journalist in sciences
Herrhausen, Alfred: Managing Director, Deutsche Bank A.G.
Rohwedder, Detlev: Former Secretary of State for Economic Affairs Member of the Board of Management Estel and Hoesch
Sommer, Theo: Editor-in-Chief "Die Zeit"
Wischnewski, Hans-Jürgen: Minister of State to the Federal Chancellor
Wolff von Amerongen, Otto: Chairman of the Board of Management of Otto Wolff A.G.

Greece

Carras, Costas: Member of the Board of the Union of Greek Shipowners

Iceland

Hallgrimsson, Geir: Member of Parliament; Leader of the Independence Party; Former Prime Minister

International

Bertram, Christoph: Director, The International Institute for Strategic Studies
Davignon, Vicomte Etienne: Member of the Commission of the European Communities
Kohnstamm, Max: President, European University Institute, Florence

over your borders, or an Egypt-backed Israeli-NATO invasion to "protect" your oil, or both. The realization of these conditions, leading to the threshold of planned disruption of oil supplies, got Lewis' name onto the participants' list fast, and apparently altered the agenda.

This year's Bilderberg conspiracy will concentrate on fine-tuned planning for a near-term world oil hoax, and for the spread of the Mideast-centered "arc of crisis" that will lead to a sequence of "eyeball-to-eyeball" confrontations with the increasingly encircled Soviet Union.

The following is the official "provisional" list of participants at the Baden Bilderberg meeting.

Lennep, Jonkheer Emile van: Secretary-General O.E.C.D.
Luns, Joseph M.A.H.: Secretary-General N.A.T.O.

Ireland

To be replaced:

Italy

Agnelli, Giovanni: President, FIAT S.p.A.
Barattieri, Vittorio: Chief of Cabinet and Director General, Foreign Trade Ministry of Italy
Cittadini Cesi, Il Marchese: President, Association pour l'Etude des Problèmes de l'Europe
Deaglio, Mario: Professor of Economics and Trade to the University of Turin
LaMalfa, Giorgio: Member of Parliament
Ronchey, Alberto: Editor, Corriere della Sera
Silvestri, Stefano: Vice-Director, Institute of International Affairs

Luxembourg

Thorn, Gaston: President of the Government of the Grand-Duchy of Luxembourg

Netherlands

Duisenberg, Willem F.
Halberstadt, Victor: Professor of Public Finance, Leyden University
Nellissen, Roelof J.: Vice-Chairman Board of Managing Directors AMRO Bank N.V.; Former Minister of Finance

Norway

Getz Wold, Knut: Governor NORGES Bank
Steen, Reiulf: Chairman, Norwegian Labour Party
Tidemand, O. Grieg: Shipowner

Portugal

Constancio, Vitor Manuel Ribeiro: Vice-Governor, Banco de Portugal

Spain

Romero-Maura, Joaquin: Directeur-Général Adjoint, Banco Urquijo in Paris

Sweden

Lundvall, D. Bjorn H.: Chairman of the Board, Telefonaktiebolaget L. M. Ericsson
Ullsten, Ola: Prime Minister of Sweden
Wallenberg, Marcus: Hon. Chairman of the Board, Skandinaviska Enskilda Banken

Switzerland

Gerser, Fritz: President of the Board, Hoffman La Roche Ltd.
Kind, Christian
Umbricht, Victor: Member of the Board of Directors, CIBA-GEIGY Ltd.

Turkey

Beyazit, Selahattin: Director of companies

United Kingdom

Bennett, Sir Frederic: Member of Parliament
Knight, Andrew: Editor, the Economist
MacMillan, Maurice: Member of Parliament
Rodgers, William: Secretary of State of Transport
Roll of Ipsden, Lord: *Author Working-paper Subject I*; Chairman, S.G. Warburg & Co. Ltd.
Shackleton, Lord: Dep. Chairman Rio Tinto-Zinc Corporation Ltd.; Former Cabinet Minister and Leader House of Lords
Steel, Sir David: Chairman, British Petroleum Company Ltd.

United States

Anderson, John B.: Republican Congressman for Illinois
Ball, George: Senior Managing Director, Lehman Brothers, Kuhn Loeb Inc.
Solomon, Anthony: Undersecretary of the Treasury
Brown, L. Dean: Director, Middle East Institute
Chafee, John H.: Republican Senator for Rhode Island
Clarke, J.G.: Director and Senior Vice President EXXON Corporation
Eliot Jr., Theodore L.: *Author Working-paper Subject II* (Middle East); Dean of the Fletcher School of Law and Diplomacy at Tufts University; Formerly of State Department
Finney, Paul B.: Managing Editor, Fortune Magazine
Foltz, William J.: *Author Working-paper Subject II* (Africa); Director, Africa Project, Council on Foreign Relations, Inc., Professor at Yale University
Fredericks, Wayne J.: Executive Director for International Governmental Affairs at Ford Motor Company
Friedman, Irving S.: Senior Vice President and Senior Advisor for International Operations, Citibank, N.A.
Heinz II, Henry J.: Chairman of the Board H.J. Heinz Company; President, *American Friends of Bilderberg*, Inc.
Jordan Jr., Vernon E.: President, National Urban League
Levy, Walter J.: Consultant to industry and governments
Lewis, Bernard (British National): Near Eastern Studies Department, Princeton University
Lewis, Flora: Chief of Bureau, New York Times, Paris
McGiffert, David E.: Assistant Secretary of Defense for International Security Affairs
Newsom, David D.: Assistant Secretary of State for Political Affairs
Rockefeller, David: Chairman, Chase Manhattan Bank N.A.
Roosa, Robert V.: *Author Working-paper Subject I*; Partner, Brown Brothers, Harriman & Co., Formerly Under-Secretary of the Treasury
Sheinkman, Jacob: Secretary-Treasurer, Amalgamated Clothing and Textile Workers Union
Sonnenfeldt, Helmut: The Brookings Institution; Former Counselor of the Department of State
Taylor, Arthur R.: Arthur Taylor & Company
Williams, Franklin H.: President, Phelps Stokes Foundation; Director, Council on Foreign Relations; Former Ambassador to Ghana
Williams, Joseph H.: Chairman of the Board and Chief Executive Officer, The Williams Companies

ISRAEL: Model Nazi War Economy

The Israeli economy is a model economy, an economy whose industrial sector is dominated by the defense industry and the largely illegal diamond trade, whose debt service is skyrocketing—as is its inflation rate—whose standard of living is plummeting, and whose only real resource is a shrinking number of highly skilled, industrial, technical, and scientific cadre.

The Israeli economy is the model that the International Monetary Fund and World Bank have slated for application to every national economy—advanced sector to Third World.

The Israeli economy follows closely the policies developed by Nazi Finance Minister Hjalmar Schacht for Germany. Like Israel today, Schacht's program was marked by an emphasis on labor-intensive technologies, measures of austerity against the population, and a credit policy oriented not to economic growth, but to meeting the demands of debt repayment.

As these policies took their toll on the productive economy, Nazi Germany, like Zionist Israel today, turned increasingly to the industries of war and a policy of expansionism. The "lebensraum" ideology was the cover for the Nazis' war policy. For Israel, it is the Zionists' dream of dominion "from the Nile to the Euphrates"—Greater Israel.

Up to about the early 1970s, Israel could have opted for a Middle East peace settlement at a Geneva conference chaired by the Soviet Union and the United States. The terms of peace would have been internationally guaranteed borders for two sovereign states—Israel and Palestine—and a chance for Israel to apply its agricultural and technical expertise to projects to irrigate the entire Negev Desert/Sinai region. Cheap and abundant energy would have been available to fuel the industrial development of Israel.

But with each act of Israeli terrorism and war against its neighboring sovereign countries and as its military dictatorship over the West Bank piles up a bloody record of atrocities, that option has all but disappeared.

Israel's Zionist ruling elite today faces the economic crisis with no illusions. Their policy solution is a Schachtian economic solution with expansionism as a key political component of that solution. Again the analogy to Nazi Germany applies. A country embarks on a policy of war production and expansionism on the basis of the expected pay-off. Thus, Nazi Germany's drive to the east, with the expectation of looting its industrial, agricultural, and mineral resources.

Israel's original purpose was as a geopolitical strategem of the British monarchy in the 19th century:

create a toe-hold in a strategic geographical location as the basis for extending the interests of the Empire over the Mediterranean and Middle East regions. The Zionist leadership forced a policy of isolation on Israel—an autarkical policy that shaped Israel's present Nazi war economy. Thus, Zionist Israel's military actions and threats against Lebanon, Jordan, and the West Bank. More potentially lucrative is the post-Camp David decision by Egyptian President Anwar Sadat to all but hand the Egyptian economy over to Israel.

The same can be applied to South Africa, which, following the Zionist autarkical model, is about to embark on the military subjugation of southern Africa.

The cost of Camp David

This is the meaning of the recently concluded Camp David accords.

Camp David signifies a U.S. endorsement and an escalation of the role of the Zionist state as a spy, policeman, and terrorist controller for the British and British-influenced circles in the United States throughout the Middle East and Africa. Camp David *does not* mean any improvement in Israel's economic situation. An examination of the circumstances of the pact bears this out.

By any accounting measure, the economic prospects for the state of Israel are decidedly grim in the wake of the Camp David accord. Even Israeli spokesmen have stated that the settlement creates new, serious obstacles to any hope for fiscal normalcy appropriate to a state of peace. After some 30 years of cruel austerity conditions, the citizenry of Israel as well as its disenfranchised subjects are being asked for renewed belt-tightening. The threat of economic crisis and collapse is not at all mitigated by the existence of a vast illegal economy specializing in gun-running and diamond trading.

Israel is scheduled to receive $3 billion in U.S. aid designed to finance the implementation of the treaty, over and above its "normal" allocation of $1.8 billion from the U.S. Government. Of the aid, $2.2 billion, however, is a loan, payable over 20 years, after a 10-year grace period. Only $800 million is a grant. The immediate costs of the treaty are the uprooting and gradual pullback of Israel's extensive fortifications along its southern front in the Egyptian Sinai region. These fortifications include four very large air bases and the infrastructure—electricity, roads, and water pipelines—to service the defense line. Israel also receives credits, included in the $3 billion, for tanks, armored personnel carriers, artillery, and F-16s on an accelerated delivery schedule. Israeli sources estimate the cost of the Sinai move to be in the range of $3.5 to 4.5 billion.

This infusion of capital will not result in economic growth and may only succeed in pushing prices up. Israel has even announced that American construction firms may be awarded contracts for the job. In any case, Israel's construction workers will not become any more skilled or qualified even if in the end, they are awarded part of the job.

On the material loss side, Israel will be obliged to abandon substantial settlements built in Egyptian territory. By treaty, the Abu Rudeis oil fields are completely surrendered, with 45 foreign firms waiting to exercise concessions sold by the Egyptian government to work the field and conduct further exploration. None of the oil output will be owed to Israel.

"Some people are doing very well indeed out of inflation—for instance anyone dealing in capital, real estate, or foreign currency...the victims belong to the productive sector of our society, the exporters, old-age pensioners, anyone living off a salary."

—Yeruham Meshel, Secretary-General of the Histadrut,
New York Times, *March 31, 1979.*

On the political side are the consequences of an Israel unable to claim imminent disaster in its appeal for financial aid and immigration. The first ramification of this problem will be American taxpayer resistance to a package that, when Egyptian aid is added, totals about $13 billion in foreign aid in the next three years, excluding any additional economic aid. Iran formerly led the list of all-time leaders in receipt of U.S. military aid, with a total of $6.034 billion since 1950. Israel came in a close third, behind West Germany, with a total of $4.297 billion between 1950 and 1977.

Israel's justification for constantly increasing aid is its need to maintain a competitive edge over its neighbors' armed forces, whose total in mobilized regular troops far exceeds Israel's regulars and reserves. The Middle East arms race, moreover, is largely of the United States' own making. Saudi Arabia and, increasingly, Egypt will be recipients of huge aid, which the U.S. must top on the Israeli side.

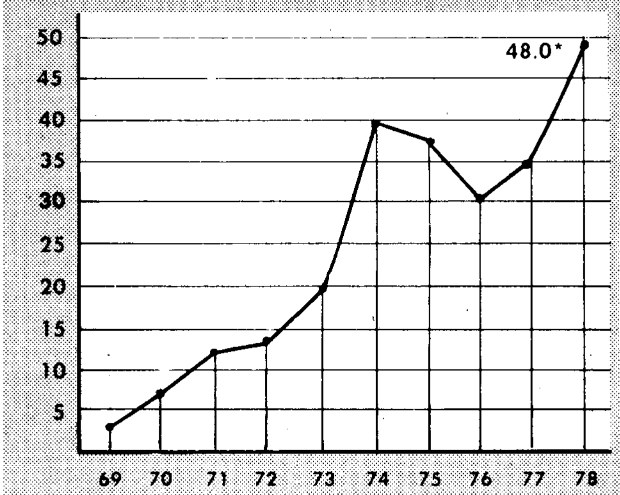
What has Egypt got to offer Israel economically? Almost nothing. The *New York Times* quotes an Egyptian official: "We are two beggars." In agriculture, the two countries export the same products. Egypt might sell water from the Nile to Israel—passing through two facing defense lines—but there would still be the problem of financing the agricultural infrastructure required.

Egypt is as poor in natural resources as Israel, and its population has proportionally fewer available skilled workers. Its military expenditures are exceptionally high, its GNP is coasting listlessly, and its debt burden is crushing. Egypt's trade deficit equals that of Israel, with a population over 12 times the size of Israel (and increasing at a rapid rate) and a per capita income one-tenth that of Israel.

Former Israeli Premier Yitzak Rabin recently said that the only basis for economic cooperation immediately at hand is package tours of the Holy Land and the Pyramids. Some have pointed out that Israel has a surplus of vacant hotel space, while Egypt has a shortage, so the tourist trade would benefit the Israeli hotel business.

One proposal guaranteed to start riots in Cairo and Tel Aviv—for different reasons—is for Israeli businessmen to exploit cheap Egyptian labor by subcontracting industry out. This may indeed begin to occur, but the consequence will be the unemployment of an increasing proportion of Israel's less skilled labor force, primarily Sephardic and Israeli Arab workers. One can imagine the stability of a work-force in Israeli-owned sweatshops inside Egypt.

Inflation: through the roof



Israel's ranks as one of the world's worst inflation rates. Most observers expect the impact of the Camp David settlement to send inflation soaring even higher.

Source (1969-77): Challenge Magazine *estimate

The economic dilemma

Israel's economic plight suggests a schoolboy riddle, perhaps the riddle of the Sphinx, where an array of incongruous characteristics is discovered to belong to the same unlikely entity. Israel is a country whose population is roughly the same size as the City of Chicago (or the state of Kentucky). It has one of the highest, continuously increasing costs of living in the world. And, over the last 30 years, it has received probably the largest allocation of military aid from the United States. Israel's military expenditures as a percentage of its Gross National Product far exceed that of any other nation. The country's rate of incurred debt exceeds its rate of capital formation.

The Sphinx's riddle—"What walks on four legs, then two, and finally three?"—applies in a very direct sense. From an infant economy sustained by outside aid and charity, Israel underwent something of an economic development in the 1950s—from which point it might have fully matured through a dynamic process of growth. But from 1956 to the present, the process shifts and Israel becomes a completely militarized garrison state wholly dependent on infusions of outside aid while its own internal productive component shrivels away.

Israel's economic prospects are cancelled by two overwhelming obstacles. Either one would be enough to make normal economic development impossible. Israel shares one obstacle with other Third World, "Fourth World," and ailing industrial economies of Western Europe: the dictates of the International Monetary Fund. The other is unique to Israel: its commercial effort is forced to proceed in the context of Israel as an autarkic state whose only natural resource is an ever dwindling number of educated and skilled labor.

The latter problem concerns us here. Zionism entered Palestine and earned the enduring hostility of its Arab neighbors and 18 percent of its indigenous population (37 percent if one includes the occupied territories). The present birth rate among the Jewish population of approximately 3.1 million persons is about one third of the rate of population growth among the 600,000 Israeli Arabs. The birth rate among West Bank Arabs, who number about 1,000,000, is the same as that of their cousins inside the 1967 borders ("The Green Line").

Israel's ability to merely man its battle stations depends, therefore, on immigration. While the immigration rate remains static, the number of persons permanently leaving the Jewish state is increasing. In 1977, 12,500 Jews had failed to return to Israel after four years. Similarly, the rate of Jews who succeed in getting out of the Soviet Union but who do not continue on to Israel is increasing. The number of applications pending for visas from Jews inside the Soviet Union is, in any case, less than 10,000.

A successful immigration program depends on the availability of jobs and housing for incoming *olim*. But housing is becoming impossible to attain in Israel. The quality of available jobs, much less the number of open positions, satisfies the rising expectations of the Jews from Arab and North African countries (Sephardim) no more than it satisfies the illusions of Europeanized Russian Jewish immigrants. The primary target of Zionist immigration appeals is Russia, followed by Jews in Iran and francophone North Africa. Little hope is placed in any movement in Western Europe or the United States.

Any expectation of increased immigration founded on the "economic benefits" of Camp David-style peace is groundless, since the treaty translates directly into further economic hardship for Israel. As for the potential elimination of "stress" in Israel resulting from the settlement, the unpleasant facts are that immigration and financial aid to Israel have always peaked during evident crises, and so it follows that the lack of any "danger" to the existence of the state itself will not help immigration or aid. Second, enmity arising from the disenfranchisement of West Bank inhabitants will, in the worst case, result in terrorism against civilians and tourists who must be taught that "nobody is safe anywhere in the Zionist entity," in the words of the "Rejectionist" faction of the Palestinian movement. But, at best, this disenfranchisement will lead to street demonstrations-cum-riots and strikes by the nationalist Arab population. Third, the appearance of "national security" for the first time is likely to provoke the endlessly self-sacrificing Jewish working class into a succession of strikes and job actions.

Historically, the hostility aroused by the founding of the Jewish state in Palestine forced a large proportion of the small settler population into national defense and security tasks, leaving a correspondingly small proportion available for productive labor. Foreign economic aid was similarly applied, leaving the country with an enormous military establishment to support with a proportionally miniscule productive apparatus. The difference was made up by incurring debt. (For instance, the estimated fiscal year budget for 1979 shows 39.9 percent of the revenues coming from borrowing.) To add to this seemingly impossible economic enterprise, Israel's only natural resource—besides the potentially arable desert land and a thriving, but insufficient agricultural production (in large part expropriated from the indigenous Palestinians)—is some partially developed phosphate deposits.

The productive activity of Israel suffers as a consequence from a heritage of labor-intensive methods and the ruralization of a working class that is 50 percent European in origin. A virtue was made out of this necessity: the virtue of "pioneering" and the romance of kibbutz building. The recent and present policies of the Labor and Likud governments have and will exacerbate this economic malady.

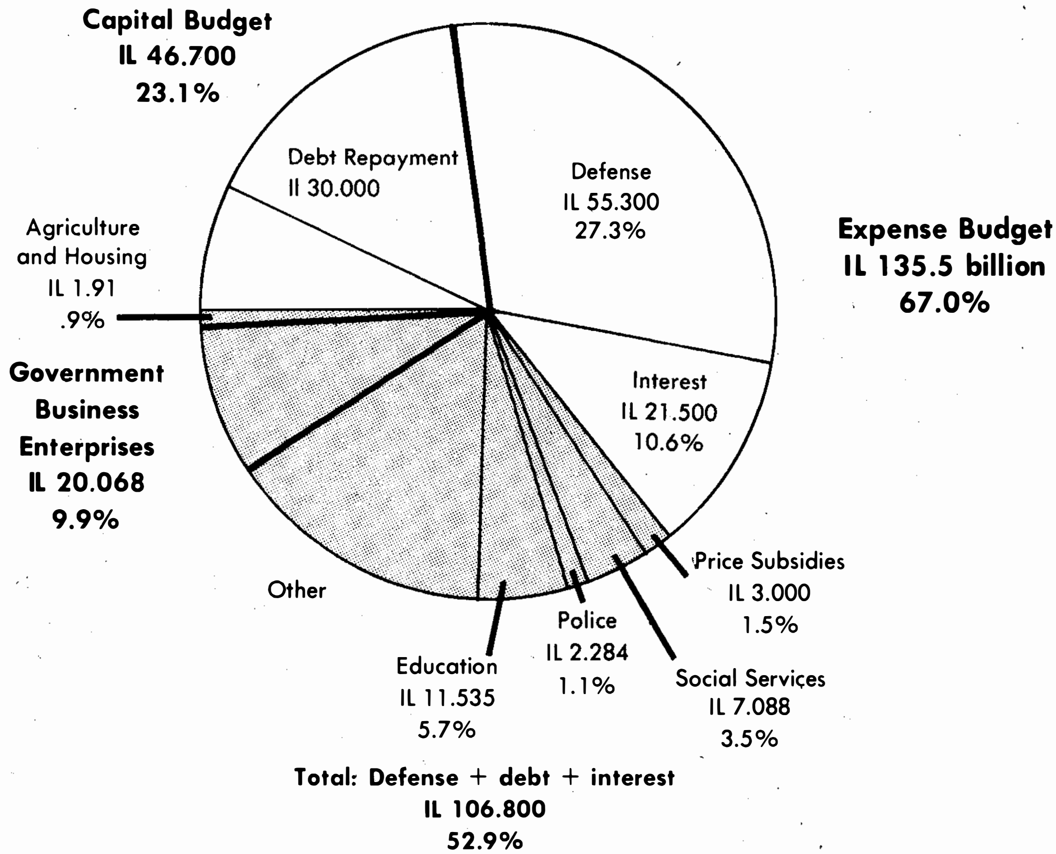
Of substantial influence on the tiny productive economy is international organized crime, for which Israel is a secure depot for illegal currency and arms transactions. The magnetic pull of these criminal enterprises on capital further debilitates the development of useful production (see box).

Schachtian economic policy

The government of Menachem Begin is faced with a 48 percent rate of inflation. In the month of January 1979, this rate increased to 6 percent per month. The ratio of imports to exports is roughly 10 to 7, due to the small productive base and massive credit needs. The result is a continuing yearly balance of payments deficit, a nearly impossible-to-meet debt repayment schedule, constant, growing budget deficits, an intolerable cost of living for all wage earners and people on fixed incomes, and a "closing circle" of opportunity for industrial investors.

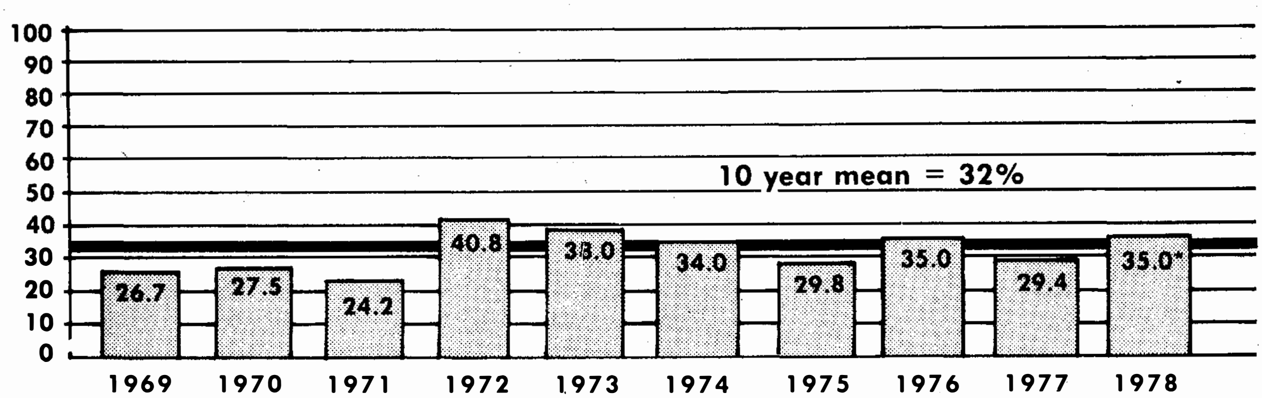
When Prime Minister Begin assumed office, his first move was to enlist University of Chicago's Milton Friedman as an economic policy advisor. Friedman, who has some vocal counterparts inside Israel, rendered the standard International Monetary Fund prescription for Israel's ailing economy: cut consumption and productive investment, cut government welfare expenditures, increase consumer prices, and decrease government credits for production. As 1979 began, Friedman's counterparts in Israel were calling for a 30 to 40 percent price increase in basic consumer items, *over and above* the rate of inflation. In his most recent syndicated column, former Minister of Information Schmuel Katz, who broke with Begin on foreign—but not economic—policy, decries the "evil spirit of consumption" among

Government expenditures concentrated on military and debt



A breakdown of Israel's estimated FY 1979 budget shows nearly 53 percent of government expenditures slated for military costs and debt repayment. Social expenditures get short shrift.

Military expenditures = 33% of all revenues



Source (1969-77): Challenge Magazine
*estimate

Military expenditures gobble up the proceeds of Israeli industry and agriculture. Military expenditures as a percentage of gross domestic product have averaged nearly 33 percent since 1969.

the citizens of Israel who are said to enjoy an increased standard of living.

Begin's response has been to either do nothing or partially implement the IMF's "bleeding" techniques. The most recent and decisive was a 25 percent price increase in basic foodstuffs, which provoked a one-day general strike by the Labor Party-controlled Histadrut labor federation. The other conspicuous act, which was more a recognition of reality than a policy move, was a formal devaluation of the Israeli pound (IL) by 2.8 percent. The exchange rate of Israeli pounds to one U.S. dollar has broken through the IL21 barrier. As recently as 1974, the conversion rate was IL5 to a dollar.

In fairness to Begin and Finance Minister Simcha Erlich, a Labor Government would not be in any better shape. Contrary to Keynesian wisdom, military spending and foreign aid has not stimulated consumer demand and production, but has pushed up the price of consumer goods and credit and shackled the state as a political hostage to those who hold the instruments of debt.

Under the earlier no peace, no war situation, the economy was sinking like a rock. Now the Camp David settlement has created a new dimension of collapse for the doomed economy.

Government budget

The facts of the government budget illustrate the preceding points. The budget for this year is predicted to be IL180 billion ($8.6 billion, approximately). The Gross National Product is itself less than IL200 billion.

Government priorities, according to Milton Friedman and every Labor government, are governed by two political assumptions. The first is defense expenditures, which lately consumed 35 percent of the total budget—a decrease from the 1973 period. Also a priority is debt repayment, which accounts for another 30 percent. The remainder, which one would expect to be devoted to essential services, is further depleted by security expenditures disguised as "development," kibbutzes whose residents commute to work elsewhere, utility services for military needs, military occupation forces with "police" badges, and "archeological projects."

Fiscal practice is based on the IMF-Friedmanite dictum that investment in consumption-related areas and imports must be cut to improve the overall trade deficit and debt situation. This is mirrored in official government policy by a high internal prime lending rate—about 29 percent—and an attempt at a competitive credit policy toward outside investment.

The social effects of budgetary austerity—by past and present governments—have been much remarked: a decline in qualified technical personnel and especially scientific personnel beyond a thin, privileged elite involved in defense research.

The defense budget bite is only partially mitigated by U.S. grants of aid. As a proportion of the budget or the GNP, defense expenditures are the largest of any country in the world—about 30 percent. Next highest is Egypt, by comparison only 22.8 percent of the GNP. The Soviet Union spends an estimated 10.2 percent, and the U.S. spends 6 percent of their GNP. Whether the funds for this come in the form of loans or outright grants, the result is nothing but inflationary for any country.

Israel's debt service is another world's record. The overwhelming bulk of financial aid to Israel, since the 1930s, has come from the United States. By 1978, total loans reached $6.516 billion. In 1977 and 1978, additional debts of $.777 and $.769 billion were incurred, respectively, from the United States. Israel

Israel exports arms to foreign dictatorships

A concealed portion of Israel's manufacturing exports,—defense exports—are at the heart of Israel's role in international intelligence operations on behalf of the British oligarchy. Israel's market for its arms trade includes Taiwan, Bolivia, Ecuador, El Salvador, Nicaragua, Chile, Guatemala, Honduras, South Africa, and, until recently, Iran.

The amount, content, and profits of the defense exports are secret, which strongly suggests that Israel's function is to "launder" arms to countries like Chile, South Africa, and Nicaragua. A direct and public transaction by the governments of Great Britain and the United States would be politically embarrassing.

Israel claims that such sales amount to $320 million a year, but the authoritative *Aviation Week and Space Technology* magazine estimates the figure is closer to $1 billion. American manufacturers charge that some of the sales are made possible by Israeli pirating of designs, patents, and actual components from U.S. aid shipments for the production of merchandise for third countries—a practice forbidden by the terms of U.S. aid agreements with Israel

Israel's merchandise includes light weapons, but also Gabriel sea-to-sea missiles and Shafrir air-to-air missiles. Like the "kfir" jet fighter, the Hebrew nomenclature belies the U.S. origin of the designs of these weapons.

The illegal diamond trade

Israel exports polished diamonds to the tune of $1 billion last year, far outstripping any other export or import item. Government subsidies to the diamond industry equaled subsidies to all other manufactures.

The average Israeli has never reaped the benefits of this trade. It is part of a very dirty business involving drug trafficking, money laundering, arms profiteering, and organized crime.

The Israeli press is full of speculation about the amount of unreported revenue associated with the business. There are months, for instance, when reported imports far exceed exports.

Where does Israel get their raw diamonds? From South Africa and Sir Harry Oppenheimer's De Beers Corporation, which runs 85 percent of the wholesale diamonds market. The De Beers-controlled international diamond cartel operates according to a pyramidal structure identical to that of the world heroin trade. By no accident, Oppenheimer is also chairman of the larger South African gold producers, Anglo-American. The Anglo-American and De Beers complex runs both the Hong Kong and Israeli sides of the money-laundering diamonds operation.

also borrows yearly from the International Monetary Fund, the United Kingdom, and West Germany.

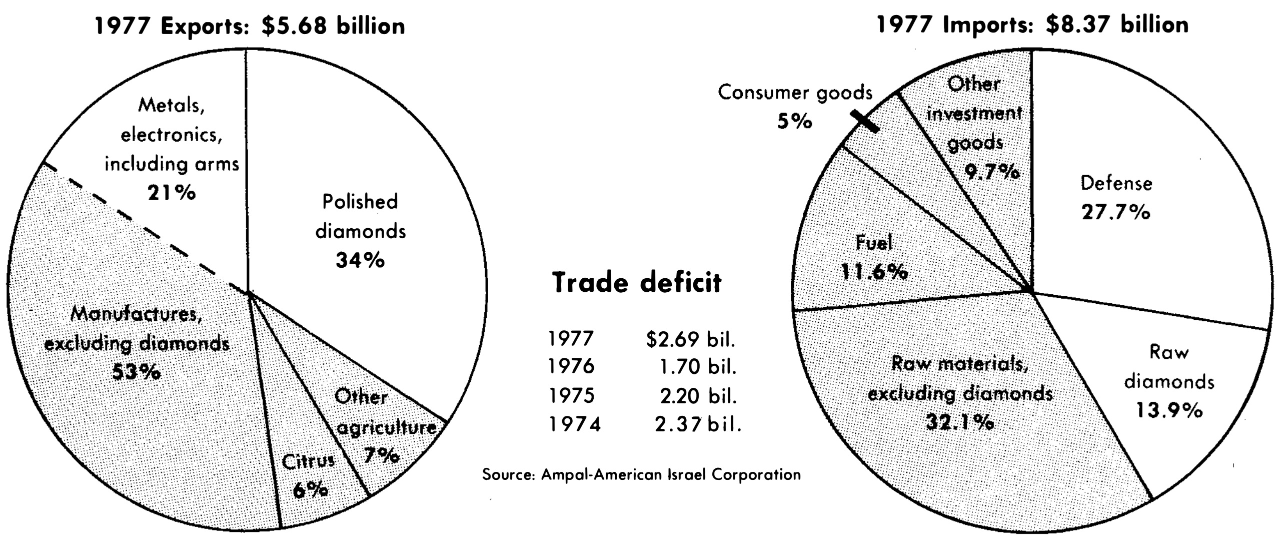
Thus, under "normal" circumstances, Israel yearly incurs an enormous added increment of debt—about $2 billion public and private from the U.S. alone—a balance of payments deficit, and a budgetary deficit, while at the same time, its currency decreases in value, its real GNP and rate of domestic capital formation stagnate or decrease, and its labor force remains at a quantitatively and qualitatively static level. All this in a country surrounded by hostile neighbors and whose principal exports must compete with the economies of Mediterranean Europe.

Total foreign exchange debt (principal and interest) due between 1978 and 2006 totals $12.910 billion, while internal public debt as of Jan. 31, 1977 was $3,508,046,900 at current rates or IL74,721,400 before adjustments for inflation.

The budget deficit approximated 35 percent of total expenditures in 1978, 30 percent in 1977, 31 percent in 1976, and 30 percent in 1975.

Keeping in mind that the Zionist's government policy—regardless of the party in power—dictates the taxing of the productive sector to pay for the depredations of the debt, defense sectors, and currency sectors, it appears inevitable that every move of the government propels the economy further toward the cliff's edge.

An economy based on arms and the diamond trade



To the extent that it is not financed by charity (mostly U.S.), the Israeli economy is heavily dependent on the arms trade, and the underworld-tinged diamond trade. Even with these lucrative (in the short-term) lines, Israel runs a hefty trade deficit.

The garrison state

As the graph on capital formation illustrates, Israel's economic dilemma is a direct result of the Schachtian measures implemented at the strong suggestion of the IMF. Productive investment is declining both in absolute terms and in terms of the rate of growth of the GNP, which itself fluctuates from static to negative. For 1977, the percent change in real GNP after accounting for the money supply increase was negative .2. In 1976, it was negative 3.9 percent. If inflation is used as a deflator instead of the money supply increase, the 1976 rate is negative 7.5 percent and the 1977 change is plus 8.0 percent.

As noted above, Israel's productive apparatus depends on labor-intensive methods. Increasingly, the labor itself is Arab, which raises an entirely distinct set of problems stemming from immigration priorities, racial discrimination against Arabs, and discrimination within the Jewish population against Sephardic ("oriental") workers.

A look at Israel's imports and exports highlights the skewed nature of the productive sector. By far the largest item accounting for revenue is diamonds (see box), employing a small layer of skilled craftsmen, whose product has little to do with the standard of living of the general population, or with the advancement of their skill levels. Israel's imports show a small proportion of consumer or investment goods in the overall picture.

An equally dismal picture is presented by the fuel bill. The crisis in Iran eliminated 50 percent of Israel's oil supply. The ceded Abu Rudeis oil fields in the Sinai yielded another 20 percent of the supply. Israel must now turn to the non-Arab OPEC international market, including the energy-stricken U.S.

In the agricultural sector, Israel's citrus crop—which accounts for 6 percent of exports—will face competition from its peace partner, Egypt, but most seriously from prospective Common Market members Greece, Spain, and Portugal.

The hardest hit sector of the economy and the one which employs the most workers is construction. Normally, the government subsidizes 40 percent of the industry (including defense-related construction). The sector accounts for 60 percent of capital formation and 15 percent of the GNP. But since 1974, the peak year for the industry, area under construction declined by 27 percent, from 13.7 million square meters to 10.0 million.

Unemployment is at its highest level ever in Israel. Full employment, as noted above, carries an enhanced significance in a country desperately in need of immigrants. But the current rate of unemployment is between 3.5 percent and 4 percent, an unacceptably high rate for Israel. Underemployment, moreover, carries the implicit threat of an increasing number of dropouts, both residing in and en route to Israel.

Denied to the Israeli population are the economic benefits that could be accrued from the two most sizeable and dynamic sectors of the economy—defense exports and the diamond trade. Neither are accountable to the public, although, with arms transactions, there is a legal pretext to justify secrecy. The diamond business claimed fully half of the government's subsidies to manufacturing.

Consumption

It could be said that no body of people has sacrificed more with less tangible material returns than the people of Israel. While a slew of putative philanthropists have made a bundle on credit deals and housing bubbles, the population lives with an inflation rate that is currently 48 percent. In 1979, this rate could very easily surpass 60 percent. In 1975, the inflation rate, as registered in the Consumer Price Index, was 34.6. Giving 1972 a value of 100, the rate in 1973 goes up to 120, in 1974 to 167.6, in 1975 to 233.5, and in 1976 to 306.6. The 1977 index, broken down to basic consumer items, shows a 45.4 percent increase in the price of agricultural produce, 32.9 percent for meat, 38.2 percent for milk, 28.8 percent for clothing, 40.2 percent for shoes, 22.7 percent for housing, 35 percent for utilities, 32.4 percent for transportation (buses; there is no rail transport in Israel), 38 percent for health services, and so on. The cost of a new Volkswagen automobile in Israel is now \$16,000; a two-bedroom apartment in a shabby neighborhood costs \$50,000. Apartments for rent are simply not available; many adults are forced to live with their parents.

The defense and debt allocations in the budget are exempt from government intervention. Prime Minister Begin has announced—out of an apparent recognition of the "gap between rich and poor"—that he will not cut any social service allotments. This creates a quandry for a government that wants to implement a Schachtian economic policy to alleviate the debt burden and strengthen the currency. Finance Minister Erlich found the solution in cutting the government subsidies of price supports for consumer goods, resulting in a 25 percent price increase and cries of outrage across the country.

Price setting, currency devaluation, and taxes are the principal instruments of austerity in Israel, where labor contracts, borrowing transactions, and many investments are linked automatically to changes in the Consumer Price Index.

Official devaluations commenced in November of 1974 under the Golda Meir government, with a 30 percent cut. From June 1975 on, a policy of "creeping devaluations" was invoked, in the form of 2 percent bites into the value of the Israeli pound. By October of 1977, this was found inadequate and the pound was set loose to "float," resulting in an immediate 31.8 percent decrease in value. At that point, the exchange rate of pounds to dollars was 15.25, characterized by Bank Leumi as a "state of equilibrium." By December of 1978, the equilibrium level had dropped to 19.53. This past week it broke through 21.

The stated justification for the devaluations was to cheapen the price of exports and discourage imports, again reflecting the IMF's "remedy."

Concurrent with the "creeping devaluation," the government imposed a Value Added Tax on goods and services of 8 percent. In October of 1977 it was jacked up to 12 percent. Currently, a regressive real estate tax is being considered by the Knesset. Taxes already account for 48.4 percent of the Israeli government's revenue.

The Labor Party's fiscal time-bomb remedy to the fall in real wages has been to permit limited consumer credit access to most employed workers. Almost everyone is in hock equal to at least the sum of a month's wages. The government offers for sale low-denomination bonds that yield a 3 percent interest after inflation.

As the country's English-language newspaper, the *Jerusalem Post*, put it: "inflation, even hyperinflation, has become profit without effort, a sacrifice without a victim; the only victim of this conspiracy which has now become almost universal is the country's future, and that has no spokesman, no lobby, no electoral appeal."

—*Max Sawicky*

With the Nile secured,

The signing of the Camp David agreement secured for Israel its southern flank bordering Egypt. Now, this week, the Israeli government has begun to step up hostilities on its eastern and northern fronts. The motivation behind this step up in hostilities and the truth belying the claim that Camp David is a peace package was revealed by a report this week in the *Jerusalem Post*. "We need more room," claim the Zionist Israeli faction around Agriculture Minister Ariel Sharon.

In Nazi Germany, such a statement would have been identified with the "lebensraum" ideology that "justified" the Nazi war drive. It has the same meaning for Israel today.

The immediate effect of the Camp David accords has been, as Syrian Foreign Minister Khaddam has remarked, to make the nation of Egypt "an autonomous region of Greater Israel." Reportedly, Yitzhak Hofi, the head of the Israeli Mossad intelligence agency, is now in Egypt, a visit that coincides with the commencement of Egyptian provocations against its eastern neighbor Libya. Egyptian President Anwar Sadat has made the continual threats of retribution against those Arab countries which oppose his collaboration with Israel.

Eyeing the north

On Israel's northern front, the Israeli-backed Falangist army of rebel Major Saad Haddad has declared the strip of territory in southern Lebanon under its control to be a "prestate." The payroll for Haddad's antigovernment militia, which aided the Israeli Defense Forces in driving 500,000 Lebanese Arabs out of their homes in the south, is financed quite publicly by the Israeli government. Haddad's spokesmen have periodically stated their willingness to federate territory under their control to Israel.

For years, the Zionist Israeli government has given covert support to those political tendencies inside Lebanon that favor the partition of that country. Full-scale Israeli military invasions have dispossessed thousands of Lebanese Arabs. Terror and antipersonnel bombardment of civilian populations have been carried out under the Nazi principle of "collective punishment" for the deeds of a handful of Palestinian guerrillas who

march to Euphrates begins

are themselves manipulated by Israeli intelligence. The Mossad is well known to have paid agents inside the ranks of the Palestinian movement.

Through this systematic terrorist campaign, Israel forced the creation of a buffer zone in southern Lebanon, until this week policed by UN Security Forces. Now it is coming under the control of the army of the Maronite Christian Major Haddad and being readied to become a part of Israel proper.

Threats against Jordan

On the eastern front, Israel took the occasion of a Palestinian guerrilla incursion into Israel to threaten Jordan's King Hussein, warning of the "consequences" he will face for his failure to buckle under and support Camp David.

King Hussein has charged in an interview published in the Lebanese press that there exists a plot to overthrow him and install in Jordan an "East Bank state" for the Palestinians. According to reports, behind the destabilization attempt is the fascist Muslim Brotherhood in both Egypt and the Ayatollah Khomeini's Iran—backed up by threats from the United States. Israel, according to these same reports, has allied with the Muslim Brotherhood

The Israeli government announced this week the formation of a negotiating committee for the next round of talks on the subject of the occupied West Bank. The committee is headed by Interior Minister Yosef Burg of the National Religious Party (NRP) who superintended the successful NRP efforts to predetermine that the Begin government's position in the talks would be firmly opposed to ceding any territory. Included on the committee is Minister of Agriculture Sharon who opposed the ceding of the Sinai to Egypt under the Camp David accords. Sharon will not countenance giving up the West Bank territory.

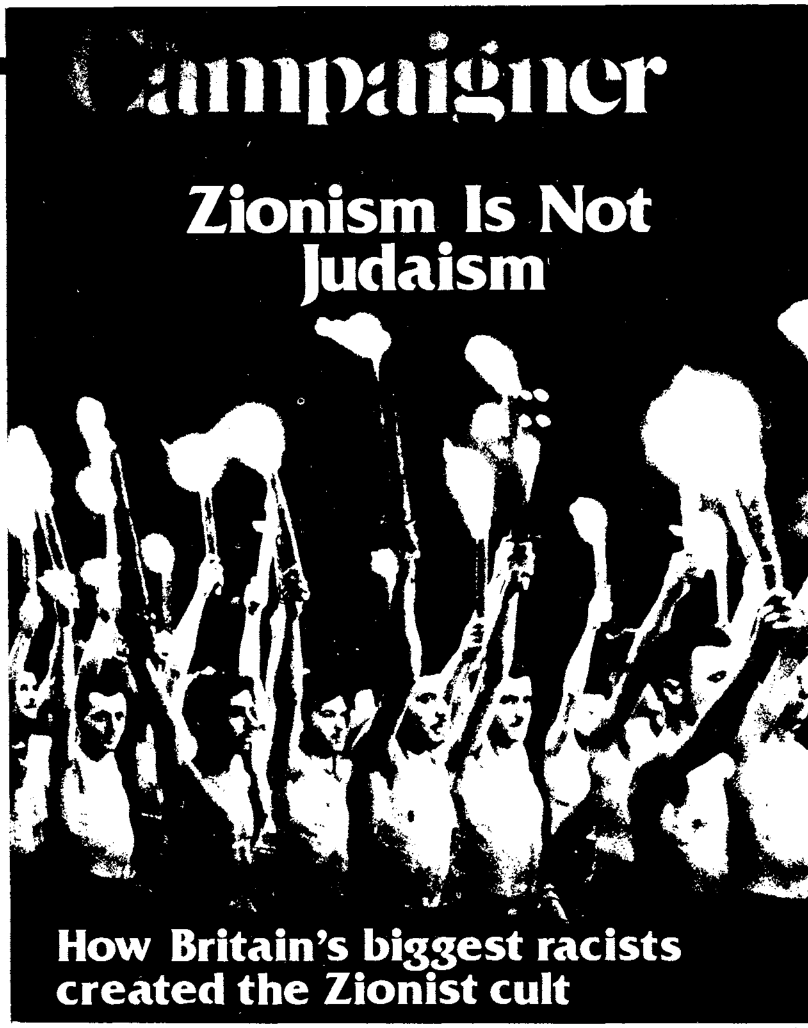
The next on the Zionists' list of targets is most likely Saudi Arabia with the objective of destroying the economic and military capacities of Syria and Iraq and seizing the Saudi and Persian Gulf oilfields—under the "protection" of a U.S. nuclear umbrella granted by the Camp David treaty. Given the commitment of the Soviet Union to defend Iraq and Syria the cost of Camp David threatens to be more than monetary.

Prostitution Thrives in Schachtian Israel

One of the most notorious activities of the organized crime kingpins in Israel—including "mafiosi" with close ties to Israeli Foreign Minister Moshe Dayan—is the management of one of the most sophisticated and extensive prostitution rings internationally. These rings are known to produce millions of dollars in annual revenues, particularly in cities like Tel Aviv.

According to a high-level source in the Israeli-occupied West Bank who is in a position to know the details of the Israeli internal situation, "In Tel Aviv alone there are at least 20,000 prostitutes. The city is filled with them. Almost one woman in ten is now a prostitute there." Independent estimates made by a Jerusalem source are that this 20,000 figure is "very conservative....In many households in Tel Aviv, when the woman doesn't return home until the wee hours of the morning, no questions are asked, everybody understands what is going on."

The Israeli prostitution plague, a tragic consequence of Schachtian economic looting policies, has spread abroad to the shores of Europe. Dayan's son, among others, has been indicted by West German law enforcement agencies for running prostitution-and-dope rings in the German Federal Republic. According to a highly informed Israeli source, "These rings not only operate in Germany, they extend to France and Latin America. Overseas Israelis like Dayan's son make big profits from them." □



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Brandt's crony organizes against Schmidt and Wehner

The split between the Brandt wing and the Schmidt wing of West Germany's Social Democratic Party was never more apparent than during the high-level U.S. tour by a Brandt ally, Social Democratic parliamentarian Conrad Ahlers, over the past two weeks. Openly counterorganizing against the war-avoidance policies of Chancellor Helmut Schmidt and his ally parliamentary leader Herbert Wehner, Ahlers promoted the strengthening of NATO and a confrontation with the Soviet Union in eastern Europe in public forums, and meetings with U.S. military circles and National Security Advisor Zbigniew Brzezinski. And he sought to downplay the significance of the European Monetary System, which Schmidt helped found.

Ahlers has a long history of confrontationist politics. After his World War II German Army service as a paratrooper, Ahlers began to profile himself as a Social Democratic military expert known for his anti-Communist views. His membership in the anti-Communist right wing did not prevent him, however, from getting a journalist's job with the liberal weekly *Der Spiegel* in the late 1950s, where he became that magazine's military affairs expert.

In 1962 Ahlers started the watergating of Chancellor Konrad Adenauer with a famous article in *Der Spiegel* alleging that the West German Bundeswehr was only "provisionally ready" to defend the country. The toppling of Adenauer was British policy, directed at Adenauer's alliance with French President de Gaulle. Several years later, it was revealed that Ahlers and *Der Spiegel* had gotten the information for the article from the BND, the British-controlled West German intelligence agency.

When Willy Brandt became West German Foreign Minister in the Social-Democratic-Christian Democratic "grand coalition" in 1967, Ahlers was rewarded for his journalistic achievements with the position of government spokesman. Since then, he has become a member of parliament, and a leading member of the parliamentary defense commission.

The following are statements Ahlers made at the American University School of International Affairs in Washington, D.C., April 10, and at the Harvard University Center of European Affairs, April 12. Ahlers was questioned by members of the U.S. Labor Party, whose chairman Lyndon LaRouche was an architect of the European Monetary System policy adopted by Schmidt. In the exchanges, reference is made to reports that the Brandt wing is seeking to ban communication between members of the SPD and members of the European Labor Party, the USLP's cothinker organization in Europe.

Ahlers reinterprets German policy

American University, April 10:

Ahlers: I am traveling here to mend a major misunderstanding that has arisen between the German people and the American people. ... There are fears that seem to be coming from U.S. leaders about a basic reorientation in BRD policy, that as the Cold War slackens, the BRD would leave the Alliance. Some people would even compare this to Rapallo. I want to assure you that this is not the case. Detente does have a special meaning for Germany, but there is no such idea as leaving NATO and joining the Warsaw Pact. ...

Germans have become aware that the geographic scope of NATO is too limited. Things that affect our security happen outside of NATO... such as in the Mideast and Africa....

There is general concern and gratitude in West Germany to the U.S. for the increase in defense budgets for NATO. .... We support it. ... We are concerned about the continuing buildup of Warsaw Pact forces, and some of us fear that what the Soviet Union is striving for is regional hegemony such as in Yugoslavia after Tito's death or something that can be used in the Mideast.

USLP: *You are the Ahlers who wrote the* Der Spiegel *ar-*

ticle that was the basis for overthrowing the Adenauer government?
Ahlers: Yes.

USLP: *Since you are an expert in the causes that bring down governments, would you comment on the article in the London press and the* New York Times *implying a change of government in Germany ... these articles seem to be attacking Chancellor Schmidt. Could you also comment on the Franco-German alliance and the European Monetary System (EMS)?*
Ahlers: In terms of governments changing, there's Thatcher, but I have my own bets on Thatcher, that she will not get in. But Helmut Schmidt will stay. He has massive popularity ... the economy is in good shape, and the opposition is incoherent....

As for the Franco-German alliance. Franco-German relations are extremely good, they are so good that it even frightens other political leaders to see such a close relationship. ... Everyone knows that it was Giscard and Schmidt, using their close relationship, that put together the EMS.

The goal of the EMS is to promote the unity of Europe. Unfortunately, I do not think it will work.

USLP: *You mentioned that the geographic scope of NATO is too limited. Are you advocating an expansion of NATO?*
Ahlers: Most certainly not. Politically and militarily it is not advantageous. But we find ourselves in a position where the security guaranteed by the treaty alliance is insufficient. Of course, Spain could join NATO quite easily, but this would not be a geographic extension of NATO.

USLP: *I am a member of the U.S. Labor Party. From what you just said, it is obvious that you are intervening against the influence of the Labor Party and Helmut Schmidt and Herbert Wehner. Didn't Willy Brandt say that the European and U.S. Labor Party had to be prevented from getting the power the Mexican Labor Party has in Mexico?*
Ahlers: This is simply absolutely not correct.

Harvard University, April 12:

Ahlers: ...well, there have been certain areas of friction between the BRD and the United States. ... I have traveled throughout America, visiting places like Kansas City and Minneapolis ... and found that people were asking a good deal about self-Finlandization, Rapallo ... I must say that there is something to self-Finlandization.

When asked about Herbert Wehner, SPD parliamentary leader: You have to understand that Wehner is an

Ahlers's itinerary: official and unofficial

Konrad Ahlers' itinerary in the United States was difficult to obtain. According to a Mr. Buhrstette of the West German Embassy in Washington, Ahlers visited:

April 4-5:
U.S. Army Association, Greater Atlanta Chapter
Atlanta Hungry Club
Southern Center for International Studies, Atlanta,
Atlanta Constitution (newspaper)
Atlanta Journal (newspaper

April 7-10:
Center for Strategic and International Studies,
Georgetown University, Washington, D.C.
School of International Affairs,
American University,Washington, D.C.
U.S. Pentagon offices
U.S. Congressional offices
U.S. State Department offices
Foreign Service Inter-Parliamentary Seminar

April 11-13:
Center for European Studies,
Harvard University,
Cambridge, Mass.
Lehman Institute, New York, N.Y.
Hudson Institute, New York, N.Y.

However, *Executive Intelligence Review* has learned that Mr. Ahlers made unscheduled trips to both Kansas City and Minneapolis, had private meetings on the U.S. Army base at Fort Leavenworth, Kansas, and a private audience with U.S. National Security Advisor Zbigniew Brzezinski. Inasmuch as the West Germany Embassy appeared to be unaware of these activities, it is not known whether the West German government approved them or not.

old man. And when you get older you tend to get pessimistic. He is pessimistic and adamantly opposed to deploying those nuclear weapons on German soil because he's afraid that the Soviets will regard this as a provocation. ...

...there is a growing conflict between the issues of defense and of detente. I myself am coming down more on the side of defense because all the emphasis in the present has been on detente, and to balance this defense must catch up. Suppose Tito dies. It is probable that the Soviets might make a military move to annex Yugoslavia to the Warsaw Pact. And their judgment on whether this will succeed or not depends on the balance between NATO and the Warsaw Pact....

After Salt II and III, if you have a strict parity between the Soviet Union's and the United States' ICBMs ... then Western Europe is at a permanent disadvantage because the Soviet Union can hit Europe with intermediate range missiles. The West doesn't have that....

Many studies show, and the fact that they all come up with the same numbers shows they cannot be in error, that the Soviets have deployed 180,000 more troops than the Soviets admit to. And we know where they are, they are in Poland.

USLP: *You mentioned at the outset that there is increasing conflict between defense and detente .... but then there was the Bonn-Moscow pact. ... It seems to me that there is some force, in the BRD as well as in the SPD, that wants to push back this policy by Helmut Schmidt and bring BRD policy in line with London and Washington's idea of NATO. The London Economist* said there was an effort underway to reorient the West German policy around this. ...

Ahlers: Well, first of all, when Willy Brandt was in Moscow he signed a treaty that was almost identical. A treaty is only as good as what will work. The problem is it hasn't worked. One problem is that the Soviets have no capacity to deliver. Their infrastructure, their economy, can't handle this. It is not Rapallo. Rapallo is always a rightist policy and it means a break with the West.

West German industrialists would rather not deal with the Soviets. They'd rather deal with other countries. What we have with the Soviet Union is really very small and I see no significant increase.

All of these questions are under reexamination now. And as I said, the emphasis is placed on strengthening defense. ... Of course, I'd prefer to deal with Brezhnev, because we know with whom we are dealing ... and detente has worked out very positively between East and West Germany, because Germany is the only country with its people on both sides. There would be more destabilization if East Germany were isolated. It's fine for them, but with the Soviets you do not get too much.

USLP: *I'd like to introduce myself. I'm Graham Lowry from the U.S. Labor Party. I think that the drift of your remarks confirms what we have gotten from an SPD executive committee member. If this is what you are doing, then you are trying to limit the influence of the EAP and the USLP and you are aiding the push for war.*

Ahlers: It's the Labor Party!—Don't overdramatize the situation. Of course there is something to what you say about discussion within the SPD executive committee. But this is not my interest or my concern.

USLP: *Do you know of PRM-32, the presidential memo that said that one third of your country will be destroyed and abandoned by NATO forces. ...*

Ahlers: Yes.

USLP: *And you told us of meeting with Brzezinski. You know what he told you?Ahlers*

Yes.: USLP

USLP: *And you told us of meeting with Brzezinski. You know what he told you?*

Ahlers: Yes.

USLP: *And you have heard of the Federal Emergency Management Agency?*

Ahlers: Yes.

USLP: *It sounds to me like something that happened in Germany in the early 1930's.*

Ahlers: No, no it is not analogous. Besides, I was too little then.

USLP: *You are engaging in efforts to contain the USLP and the EAP, and so you are engaging in efforts for nuclear war. Tell that to Willy Brandt.*

Ahlers: I don't see him that often, I saw him in March.

USLP: *Well, tell him that this is a hell of a time to pull the high treason act.*

Ahlers: What do you mean by treason?

Karamanlis maps his country's future role

Greece seeks to bridge Europe and the Arab world

Greek Prime Minister Constantine Karamanlis paid his first visit to Saudi Arabia at the end of February to concretize a wide range of joint cooperation agreements with the Saudis as part of Greek government policy to make that country "the bridge" between Europe and the Arab world. As pointed out by the Greek Premier in his interview with the Saudi newspaper *Jidda 'Ukaz*, "Greece's dual relations with the Arab countries on one hand and the European Common Market on the other will open the road to a meeting between the Arab community and the European community."

Karamanlis is working closely with the French government to bring Greece into the European Community and thereby assume an important role in a three-way cooperation for Third World industrialization involving Arab investment, the advanced technology of industrialized Europe and Greek territory and manpower. Greek participation in this arrangement is viewed as critical by French and West German partners of the newly formed European Monetary System (EMS), not only because of Greece's excellent geographical position in facilitating expanded trade between Europeans and Arabs, but most importantly in countering London-Washington plans to maintain regional crises in the Mideast-Mediterranean area.

In view of the great opportunities for the development of Greece under a fully operational EMS, the Greek government is pursuing two major interconnected policies. Accession into the EEC is projected to be finalized by the beginning of 1980, providing openings to the Arab nations of the Mideast and North Africa.

Following a comprehensive European tour at the end of 1978, during which Karamanlis received the full backing of Chancellor Schmidt and President Giscard d'Estaing for Greece's full membership in the European Community, the Greek Premier visited Saudi Arabia and Syria last month in his effort to materialize those policies.

The agreements in Riyadh

Arriving in Riyadh on Feb. 26, Karamanlis called for "a comprehensive Mideast settlement" based on the complete "withdrawal of Israeli Forces from all Arab occupied territories," and also for the establishment of "an independent Palestinian state." During his three-day stay in the Saudi capital, the Greek Prime Minister, accompanied by Foreign Minister Rallis and Trade Minister Panayiotopoulos, held talks with Crown Prince Fahd and members of the Saudi cabinet covering a wide range of proposals for political and economic cooperation, such as:

* establishment of regular political contacts between the two countries.

*establishment of a ferry service, linking the ports of Volos, Greece and Jeddah, Saudi Arabia via Alexandria, Egypt—to facilitate expanded trade activities between Saudi Arabia, Syria, and Europe

* construction of Saudi commercial ships in Greek shipyards

* establishment of a joint aluminum plant, estimated at $1.7 billion to be built in Saudi Arabia with the input of Greek aluminum and Saudi capital and energy.

* signing of a long-term agreement for the Greek purchase of crude oil from the Saudis

* expanded Greek exports such as cement, building materials, food-stuff, textiles, etc.

Following the talks, Prince Fahd announced that the Saudis will supply Greece with two million tons of crude oil to help meet Greece's annual demand over what the country has already purchased from the Soviets, Iraq, and Libya.

The Greek press has reported that besides commercial and technical ties between the two countries, which at present include 40 technical companies operating in Saudi Arabia, stronger political ties will result from the Greek-Saudi talks. Karamanlis was also received by King Khalid, and Prince Fahd accepted an invitation to visit Greece in the near future.

Following his visit to Riyadh, Karamanlis visited Syria, where he held talks with Syrian President Assad. Greece and Syria had already concluded an agreement in 1977, which opened a truck-ferry service between the Greek eastern port of Volos and the Syrian port Tartous which now operates daily. This route is due to be supplemented by additional lines, probably linking the Greek ports of Salonica, Piraeus, Patras, Volos and one of the ports in the island of Crete with Syrian, Libyan and Egyptian ports.

Greek, Arab cooperation

The recent Karamanlis trip is the first major outcome of an approximately two-year effort by the Arabs, Greeks and the European architects of the EMS to establish a triangular arrangement of economic and cultural cooperation.

In 1977, the Greek government founded the Chamber of Development and Cooperation with the Arab countries (CDC), headed by the Greek Ambassador-at-large to the Arab world, Ioannis Georgakis. As pointed out by its director, the aims of the CDC are to promote Arab investment projects in Europe and joint Arab-European projects in the Arab countries. Since the foundation of the CDC, as described by one of its spokesmen, "more and more North European firms are asking us if they can have the chance to participate with their technology in joint projects." Businessmen from Italy, West Germany and France have reportedly approached the CDC for membership. CDC Director General Walter Buchholtz, has been quoted saying that more than 70 West German firms are "looking seriously for opportunities for cooperation."

In the summer of 1978, a major Greek-Arab Symposium was held in Athens, during which 100 Arab investors and economists representing 11 Arab states were presented with a list of 70 projects in such areas as petrochemicals, steel, paper-industry, telecommunications, shipping and energy. One of the Greek offers to the Arabs is participation in a $415 million petrochemical complex planned by the Greek state agency for industrial development. At the conclusion of the symposium, Greek Minister of Coordination Mitsotakis announced the successful completion of negotiations for the establishment of the first Greek-Arab bank to make credit available for development projects and finance Greek-Arab trade.

Over the past five years, Greek exports to the Arab countries increased twelve-fold from $50 million to more than $500 million and include machines, transport equipment, manufactured goods, foodstuffs, construction materials, and textiles. In addition, massive construction projects, mostly in the Gulf area, are carried out by Greek contractors.

The growing interest expressed by the Arabs for investing in Greece will be further discussed in the second major meeting organized by the CDC for June 25-28 in Athens, which although called the Greek-Arab Symposium for Development and Cooperation, will be attended by European delegates as well.

It has also been decided that two cultural Mediterranean centers for "Hellenic-Islamic and Arab studies" are to be set up in the island of Rhodes and Athens as meeting facilities for Arab and European cultural exchange.

—*Erini Levedi*

Karamanlis talks about the common Hellenic and Arab heritage

In preparation for his extraordinary February trade meetings in Saudi Arabia, Greek Prime Minister Karamanlis made the following remarks to the Saudi newspaper Jidda 'Vkaz *in Athens:*

Your country and ours have been sources of civilization, in that you can say that contemporary thought found its roots in the Arabian peninsula and the Greek peninsula. Cooperation between us could provide human civilization with continued and constantly renewing radiation of intellect, especially since both our political experiments are based on human care that gives new significance to democratic practices which, in our view, are no longer mere patterns and forms of political action but also must be linked to the very objectives of seeking a better life for man wherever he may be.

This shows that the principal aim of this visit is to create fields of political action within the area in which we exist because the currents and dangers around us in this area if ignored are bound to change the characteristics of life, for whose consolidation you have struggled for 14 centuries

Consequently, you are right in saying that the importance of the visit is connected with the present situation and conditions in the Mideast because, out of our sense of the danger, we are searching for an ally with whom we can cooperate to repel these dangers. We can find no better ally than the political leadership of your country, on the grounds of ancient thought and political action that gives us, together, the ability to cooperate in leading the area in preserving the cultural heritage not only inside the two countries but also throughout the world.

With EMS on the back burner:

'Free enterprise' threatens

As long as France's patrician President Giscard d'Estaing was firmly committed, as he had been since last summer, to early implementation of the European Monetary System's program of third world industrial development, many were convinced that the persisting weakness in France's domestic economy would tend to work itself out.

But, under intense pressure from London, Washington, and NATO in Brussels, Giscard and EMS cofounder Helmut Schmidt have backed off from their low-interest Third World lending program. The result: problems in France's domestic economic picture are suddenly looming large for Giscard.

The crux of the problem is the so-called Barre plan, the program advanced under the name of Prime Minister Raymond Barre, of stimulating French industry by cutting back on the nation's traditional dirigist focus on state-directed investment (epitomized by the eight, state-owned industries), in favor of indirect "stimulation" of investment in the private sector, coupled with an austerity policy aimed at holding down imports and wages.

President Giscard appears sincerely committed to industrial growth for France; to the extent that he has accepted the Barre prescriptions, he has done so under pressure from entrenched Rothschild interests in France, and apparently from the mistaken belief that the Barre program—which has been particularly promoted not so much by Barre himself but by the circle of liberal "new economists" gathered around Finance Minister René Monory—might actually improve France's industrial position.

The Barre program has had two years to work; the results are in, and, as the following survey shows, whatever it has accomplished, it has not worked to strengthen French industry. In fact, as a result of the program, Giscard is now sitting on an economic and social powder-keg. At this point it will take vigorous and prompt action to push through the EMS's Third World development program, and, domestically, to revive the dirigist economic approach of President de Gaulle (and earlier, France's great economic planner Jean-Baptiste Colbert) for Giscard to extricate himself from his domestic predicament.

The premises of Prime Minister Raymond Barre and René Monory's deflationary plan are best summed up in a little known (in the U.S.) series of articles penned by François de Combret, technical advisor to the General Secretariat of the President of the Republic, published by *Le Monde* in late March and early April 1978.

French economy

'Industrial Redeployment'

Under the general heading of "Industrial Redeployment," de Combret argued that the 1973 oil price explosion—a "watershed in history"—necessitated the "redeployment of French industry" and, at the same time, the demise of the "Industrial Imperative" policy of the first 15 years of the French Fifth Republic. The rationale for the new policy stemmed from a "break at three levels": (1) comparative prices (the rise in raw materials prices, including energy); (2) the "new international division of labor," i.e., the growing industrialization of the Third World; and (3) the developed countries are looking forward to "a quieter, more humane, more equitable mode of growth," e.g. the "service-oriented" mushrooming of gambling casinos and hotels being encouraged these days by London. Accordingly, he argued, three new principles must govern the new industrial policy:

•**"State intervention must become the exception and respect for private initiative and the disciplines of the market the rule."** The target here is France's eight large state sector industrial firms, including Renault, the giant EDF-GDF energy monopoly (which incorporates France's nuclear program), and the SNIAS Aerospatiale aircraft concern. As the chart shows, the public sector concerns have contributed a disproportionate share of actual capital growth in the French economy since 1973. Argued de Combret: a slowdown in growth is inevitable, and "public money is becoming scarce" anyway. And he quoted Ronald Gierson, the president of Britain's General Electric, which recently reoriented its expansion program toward large-scale asset stripping: "Ministers and civil servants are playing with taxpayers' money when they think they are Rockefellers and when they too often invest in dead-end ventures." Since then, Monory has stepped up government attacks against the alleged inefficiency and waste of the public sector and sponsored a series of plans to decontrol public sector corporations.

•**"Competition must be restored in all fields**...we must fight against monopolies and oligopolistic agreements in the national market." Implementation of this second principle has meant the decontrol of industrial prices, which Monory has described as a "true revolution in the French economy," portraying himself as the first French politician in the last 30 years who "has dared to stop price controls" and wage a "pitiless" war against the "lame ducks" of industry.

•**"The new industrial policy is focused on the small and medium-size corporations."** In other words: scrap France's industrial giants.

"The three principles of the new industrial policy must be implemented without dogmatism. Empiricism...could thus be promoted to the status of 4th principle."

The other main objective of the industrial redeployment de Combret defined as the restoration of equilibrium in the balance of trade and balance of payments.

His recipes were frankly autarkical. "We must above all reduce imports through a systematic policy of reconquest of the national market (which) can mean savings in the consumption of raw materials, energy, and finished products. We must shoulder part of the burden of poverty and scarcity." Again de Combret argued that the slowdown of growth would spontaneously contribute to the reduction of "superfluous consumption," but that it was of paramount importance to "reform public mores" in the direction of greater frugality.

Elaborating, de Combret further argued that the "transformation of the production processes" will help reduce imports—the "overconsumption" of fertilizer in agriculture being targeted in particular.

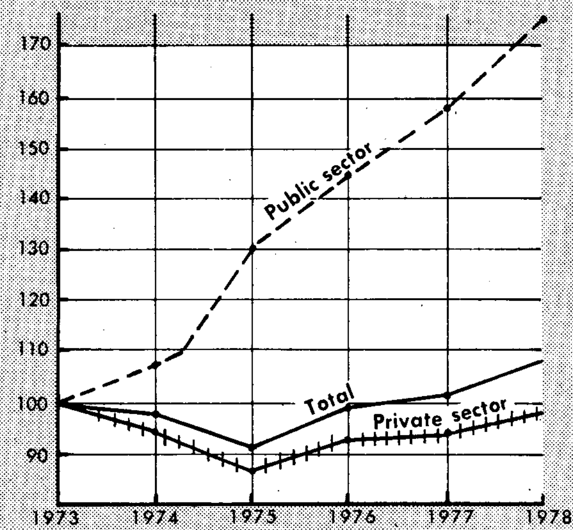
And he outlined three policy orientations aimed at restoring the much-touted "equilibriums": promoting productive activities in keeping with French tradition—the wood industry, agro-food industry, etc.; emphasizing "reciprocity" in international trade; and the "reconquest of the national labor market"—immigrant workers must be expelled (this has become the official policy of Secretary of Manual Labor Lionel Stoleru) and the jobs thus made available be filled by French workers through a campaign in favor of manual labor, craftwork, etc.

Concerning the export drive proper, de Combret suggests that France should renew the tradition of the French India Companies, that the access of small- and medium-sized corporations to foreign markets be facilitated, and that a general policy of cooperation "without exclusiveness" be implemented in the fields of nuclear energy, computer and aerospace technologies—given France's "limited financial resources." Behind this proposal is a continuing campaign to stamp out the vestiges of de Gaulle's efforts to develop pioneering all-French technologies in these areas.

The two-and-a-half-year-old "Barre Plan" has on the whole been a faithful implementation of the monetarist policy which François de Combret, along with many other government advisors, including the new president of the French economic planning agency Michel Albert, publicly unveiled as soon as the 1978 elections, the "great scare of March 1978," had passed with a resounding victory for Giscard's forces.

Barre's "logic" can be summed up as follows: given "external constraint" (the need to export more to foot the oil bill, and keep imports at as low a level as possible)—which implies the depression of household consumption and wages—priority must be given to the recovery of the private sector's financial situation. Once achieved, the latter will trigger productive investment, which in turn will improve the employment situation. But Barre's "theorem" or "the German theorem" as it has been called by Barre's retinue of financial wizards, according to which profits breed investment, has proved to be a disaster on all counts.

Productive investment 1973-78



According to figures released by the *Crédit National* in mid-December 1978, productive investment in France has barely risen above the levels reached before the 1973-74 oil crisis: 107.9 in late 1978 compared to 100 in 1973. While the eight public corporations increased their investments by 50 percent over the 1974-78 period, private corporations have still to recover to their pre-1973 levels.

Source: Comptes de la Nation (estimations and forecasts).

The true extent of the 1978 corporate "financial recovery"

In its latest "note de conjoncture," the French National Statistics Institute INSEE has dispelled all the wishful thinking concerning the "German theorem."Gross profits (dividends plus interest plus taxes plus self-financing) in 1978 stood at 2 percent of total corporate added value, compared to 28.5 percent in the 1970-73 period, and 24.8 percent in 1975-76. Wage costs (wages plus social security contributions), bemoans Barre, which represented 64 percent of corporate value added in the 1970-73 period, rose to 69 percent in 1976, and dropped "only" to 67 percent last year, given the stiff resistance to austerity, did not keep up with inflation. The increase in wage costs slowed from 9.5 percent in 1977 to 7.5 percent last year, while industrial production prices rose 6.5 percent in 1977, and 8 percent in 1978. Meanwhile industrial production increased a low 2 percent in 1978, hardly better than in 1977. The situation during the last quarter 1978 and the first two months of 1979 reportedly improved, with the highly unreliable industrial output monthly index (it covers only 41 percent of industry) rising 5.5 percent on an annual basis over the indicated period. Recent business surveys point toward a leveling of industrial output, given the "uncertainties" in the energy and raw materials fields and the general international situation.

What happened? Private industry benefited from an 11 percent decrease in corporate and property taxes, from low-interest rate state grants and loans totaling some 10 billion francs, and from some 4 billion francs in savings that were reportedly channeled to equity purchases through an investment tax break (the so-called "5,000 francs Monory"). Last, but not least, the progression of the wage earners' purchasing power was kept at a low 1.5 percent in 1978, although industrial wage levels in France are still, along with the British ones, the lowest among the EEC countries (see table). Despite a savage streamlining of production capacities (Monory's notorious "degraissage"—"cutting the fat"), gross savings (self-financing) in relation to corporate value added stood at a low 11.5 percent in 1978, compared with 14 percent in the 1970-73 period.

As the April 3 issue of *Les Echos* points out, some improvement in corporate profits did take place last year, but a return to "normalcy" has yet to come. Moreover, whatever improvement took place last year—the true extent will only be known when the *Comptes de la Nation* for 1978 appears later this year—did so during the first half of 1978; since then, "general uncertainty" has prevailed.

Investment: waiting for Godot

Nothing illustrates better the coexistence in France of two widely diverging economies than the comparative evolution of productive investment (fixed gross capital formation in industry, services, commerce) since 1973 in particular (see graph). According to updated figures released late last month, productive investment over the 1973-78 period increased 75 percent in the public sector and fell 7 percent in the private sector. Overall, productive investment fell 0.5 percent in 1977 and rose 0.5 percent in 1978. Individual firms were particularly hard hit: down 12 percent in 1975, plus 6.6 percent in 1976, down 1 percent in 1977, up 1 percent in 1978.

With an average rate of productive capacity utilization in industry of 84 percent, the share of investment in capacity expansion has dropped from 30 percent in 1973 to 25 percent in 1978, while an estimated 30 percent of private capital invested would go to modernize the existing stock of capital.

Although definitive figures for last year's gross fixed capital formation in private industry are not yet available, the 1978 figures for the machine tool industry provide a fairly reliable picture of what the current situation of industry as a whole is.

While the industry achieved an unheard-of trade surplus of FF355 million in 1978, the national market has collapsed, with no pickup in sight, if we are to believe the March 1979 monthly business survey by *Les Echos*. Since 1973—1976 being an exception—national consumption has kept dwindling, by late 1978 reaching a level comparable to that of the early 1960s! National consumption in 1978 amounted to a low 62,000 tons (a drop of 16 percent compared to 1977, which itself saw a 30 percent drop compared to 1976), which can be broken down into 35,000 tons of imports and 27,000 tons produced at home. Given the notorious inadequacy of French national machine tool production to the requirements of industry as a whole (the French machine tool industry specializes heavily in a few highly sophisticated items), the sharp drop in imports (down 14 percent to 35,000 tons in 1978 compared to 1977) is another indication of the low level of capital formation in the private sector.

Machine tools

Percentage of total

less than 10 years old in 1978

France	33
West Germany	37
Britain	39
Italy	42
Japan	60

Source: European Coordinating Committee of the Machine-Tool Industry

Machine tool deliveries

Percentage change, 1977-78

France	−35
West Germany	+28
USA	+34
Italy, Britain	+3

Source: European Coordinating Committee of the Machine-Tool Industry

Hourly wage rate of industrial workers

mid-1978

Belgium, Sweden	$9.88
The Netherlands	9.62
West Germany	9.18
USA	8.26
Canada	7.54
France	6.90
Italy	6.18
Japan	5.65
Britain	4.24

Source: Citibank's Monthly Economic Letter, December 1978

In comparative terms the situation is no better. Machine tool deliveries over the 1977-78 period fell 35 percent in France, while increasing 28 percent in France's main trading partner and competitor, West Germany. As a consequence, France, which was already lagging behind its main trading partners, now has the oldest set of machines in industry in Europe, with only one-third less than ten years old.

Confronted with these dismal figures Credit National president Andre de Lattre warned last January, "while favoring the financial consolidation of private corporations, (the stagnation of private investment) could entail serious drawbacks in the near future for the competitiveness of French industry, especially at a time when our competitors are increasing their investments, in the area of productivity in particular."

The figures above also call in question the widespread contention that corporations would devote some 30 percent of their investments to the modernization of the existing stock of capital. In this respect the latest INSEE "note de conjoncture" intimates that an unspecified share of the corporations' greater liquidity in 1978 went to reduce heavy corporate debts—prior to 1978, financial costs frequently amounted to over 5 percent of corporate turnovers. Quoting the April 3rd issue of *Les Echos:* "Part of the new capital generated—through the new 'Monory' equity shares scheme and improved self-financing—is used for debt retirement and debt service purposes."

Of more long-term significance, persisting stagnation of productive investment bears heavily on the competitiveness of the crucial capital goods sector of industry. Taking Britain as the epitome of industrial anemia, the drop in Britain's share of capital goods exports over the decade 1965-75 was parallel to a fall in the investment rate of manufacturing, from 13.4 percent to 12 percent. Conversely, France increased its share during that decade, with an investment rate in manufacturing rising from 16.5 percent to 19.7 percent. Britain's low level of productive investment was also linked to a decline in its share on both foreign markets and the British market—the percentage share of machine tool imports in national demand, which had stabilized at about 20 percent prior to 1970, increased sharply to 35 percent in 1973 and over 41 percent in 1974. The parallel with France today is obvious enough: France's share in capital goods exports, which has stagnated since 1975, appears bound to regress in the coming years.

A survey of the 1978 results of some of the capital goods producing branches of industry bears out the global picture emerging from the investment situation.

The MPTS equipment goods sector

Take, for example, the MPTS equipment goods sector (equipment for steel, construction, etc.). The sector's turnover in 1978 (FF8.7 billion) was down, in volume terms, 1 percent from 1977, and 17 percent from 1973. The national market has shrunk 5.3 percent compared to 1977. Twenty percent of the sector's firms have gone bankrupt since 1973, and the total labor force is down 8,000 from a 1973 total of 43,500 (minus 19 percent). Even more telling is the 50 percent collapse of national demand since 1973.

The MPTS sector has so far achieved a good score on foreign markets. Exports rose 2 percent in volume in 1978, to FF5.4 billion, thus realizing a FF3 billion surplus (62 percent of the output is exported).

The collapse of the national market, however, is threatening the very survival of the sector. Following the 1977 takeover of Poclain (number one in the field) by the U.S. giant Case-Tenneco, Ford's recently acquired French subsidiary Richier is being dismantled after years of losses, while German firms are buying up medium-sized MPTS corporations by the dozen. The crisis in this sector is such that the president of the MPTS employers association recently urged the government to float a FF10 billion loan to foster activity in the public works / construction branch (public orders represent 70 percent of the national MPTS market, both directly and indirectly). "France is still largely underequipped, contrary to certain doctrines erroneously developed by government circles," he warned, further arguing that housing construction and public works absorb some 50 percent of national steel production.

Electrical construction

Contrary to 1977 expectations of a 6.5 percent growth of the electrical construction sector, 1978 figures show an increase in volume of only 1.5 percent, compared with 4.8 percent in 1977 and 9.3 percent in 1976. One reason for the slowdown was the leveling (in constant francs) of public orders (mainly the P&T postal telecommunications state monopoly), which represent 13 percent of the professional branch turnover. Hence the layoffs by the branch's leading firms: AOIP, CIT-Alcatel, CGCT and LTT.

The 1978 turnover is expected to reach FF80 billion (up 6 percent over 1977). But the labor force is down 2 percent to 460,000, while the average working week dropped to 40¼ hours, compared to 44½ hours in 1970. Investments stayed at the 1977 level of FF3.3 billion. Ominously, the hardest-hit component of the sector was the equipment goods branch (60 percent of turnover), down 1 percent in volume. The figures for the consumer goods component (27 percent of turnover) were up by only 1 percent, while the intermediary goods branch (13 percent of turnover) was up sharply, with a 17 percent increase for the semiconductor industry. But this last, contrary to Barre's projections of private investment increases, was the outcome of the FF600 million, 5-year "integrated circuit plan" launched by the government in the spring of 1977, aimed at developing a competitive, French-controlled semiconductor industry in cooperation with mainly U.S. corporations. Exports rose 12 percent to 26.7 billion, with a geographical redistribution in favor of the EEC, the U.S. and the East bloc, away from the OPEC countries.

Housing and construction

Production in the housing and construction sector was down for the fifth consecutive year (see table). Less than 400,000 new housing starts are expected in 1979, while public investment (state and local entities) in the public works branch is expected to drop another 3 percent in 1979. Output in the construction is expected to fall by 3 percent in volume.

The French construction industry is, by all standards, as much a depression area as steel, shipbuilding or textile. The labor force shrank 7 percent last year (a loss of 80,000 jobs), with bankruptcies up 17 percent compared to 1977. One out of three corporations in the sector have failed since 1968, and no relief is in sight. The impact on general activity has been particularly hard since the loss of 10 jobs in the sector causes another 10 layoffs upstream or downstream.

Employment: the powder keg

Unemployment—artificially contained until the March 1978 legislative elections through various gimmicks like temporary hirings of jobless high school graduates—hit the labor force savagely in the aftermath of the Giscardian electoral victory. Of the active population, 6.01 percent is now jobless, an increase of 20.4 percent over the 1977-78 period to a total registered unemployed of 1,350,000. The industrial labor force was among the hardest hit, with a net loss of 65,000 industrial jobs last year, down to 5.63 million (the total was 6 million in 1974).

Contrary to other EEC countries, the job market shows no sign of improvement. The January 1979 unemployment index soared 2.1 percent while the OECD forecasts another 150,000 layoffs by December 1979.

Construction permits issued

Percentage change over three quarters, 1977-78

Private	
Housing	− 9.5
HLM* ownership	−35.0
HLM* rental	−20.0
Assisted sector (non-HLM rental and ownership	− 7.0
Private, unaided sector	− 5.0
Commercial	
Agricultural construction	+25.0
Industrial construction	− 2.0
Warehouses	− 7.0
Stores	− 6.0

Source: *Les Echos*, Jan. 25, 1979

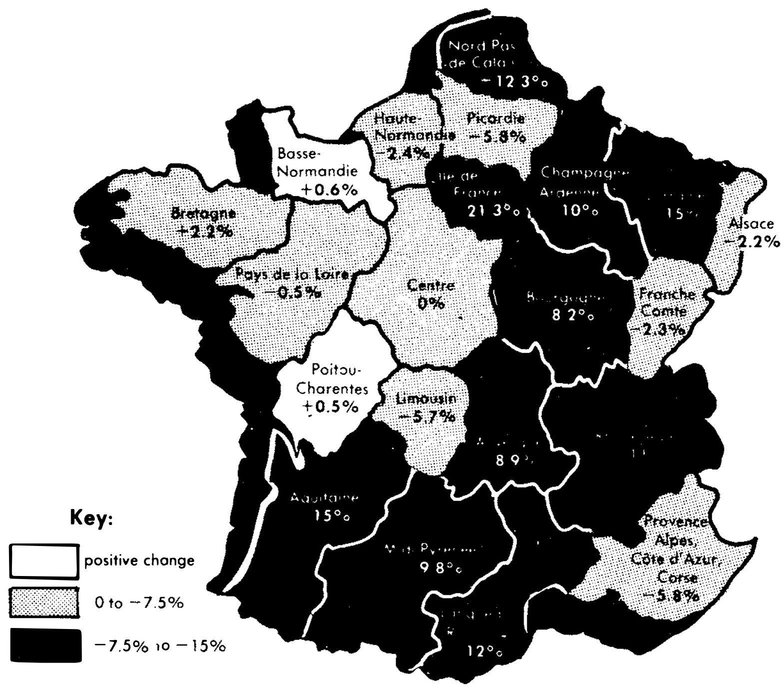
* HLM: relatively low-cost, state-subsidized housing.

Longer-term prospects are even more chilling. INSEE has just released a study showing that some 1.8 million new jobs must be created by 1986 in order to cope with the expected increase in the active population, a figure which does not take into account the expected job losses in steel, shipbuilding, textile, etc. Were the Barre policy to continue unchanged in the coming years, INSEE estimated that industrial employment will drop by 9.7 percent over the 1975-1983 period (a loss of 805,000 jobs).

Even more worrisome is the geographical distribution of unemployment. Forty-three departments have an unemployment rate higher than the national average of 6.0 percent, and of these 12 have a rate higher than 8 percent. They are concentrated in the old industrial areas in the eastern and northern part of the country; the southwest coastline (with the Loire Atlantique department in particular hard hit); and the Mediterranean coastline, with La Ciotat and Marseille the hardest hit (their respective jobless rates are 18.3 percent and 9.6 percent).

Foreign trade

One compelling argument for rapid implementation of the EMS is the continuing weakness of French foreign trade, a reflection both of the general slowdown in world trade, as well as of the weakness of French industry. Under EMS-directed industrial development, the lag in French exports, from the industrial sector in particular, could be reversed. As matters now stand, despite the Barre program, the 1978 balance of trade



Industrial employment

1975-83

At the request of the French economic planning agency, Commissariat au Plan, the National Institute of Statistics drew up a prospective map of regional industrial employment for the 1975-1983 period. The assumption was made that there would be no state intervention, giving "free play to the market forces."

Even allowing for new industries, industrial employment in all of France will fall by 805,000 or 9.7 percent over the 1975-83 period. The construction/public works sector alone will have a net loss of 165,000 jobs.

figures would be in deficit were it not for huge armaments exports, to the Mideast in particular. In CAF-FOB terms, excluding armaments exports but including insurance and shipping costs, the 1978 deficit amounted to FF23.5 billion; this despite a deep recession at home which played a role in the government's efforts to keep imports at the lowest possible level.

Exports rose 12 percent, while imports grew at a much slower pace of 6.6 percent. More disturbing is the worsening of the traditional imbalances, especially the persistent deficit of French industrial goods trade with the developed countries.

Said the report to the Parliament on the adaptation of the Seventh Plan:

> The performance of French industry on foreign markets remains fragile. Apart from our immediate neighbors (70 percent of French exports are within a 1500 kilometer radius of Paris), the share of foreign markets held by French corporations is important only in certain French-speaking African countries and a few other countries like Nigeria, Iraq and Libya...the conditions that made possible the massive French trade surplus with the non-oil-producing developing countries enhance the limitations of France's success in improving its trade balance. The current surplus chiefly rests upon the expected pickup of equipment goods sales. Now those very sales are based on a sharp increase of commercial credits...which makes France the creditor of a group of countries whose debt-incurring capacities are not boundless. But by its structural significance, it is the scope of our deficit with the OECD countries, especially the U.S., the BRD and Japan which is alarming.

In fact, the industrial goods trade deficit with the industrialized countries reached FF26 billion in 1978. The breakdown of this deficit is as follows:

• with the EEC: deficit of FF18 billion, including FF14 billion...with the BRD;

• with the non-EEC members of the OECD: FF8 billion.

Of major concern is the persisting trade deficit with West Germany, France's main trading partner—the 1978 share of the BRD in French exports was 18.4 percent; for imports, it was 17.08 percent. The overall trade deficit with the BRD amounted to FF10 billion in 1978, compared to 10.7 billion in 1977, and 13 billion in 1976, when the global deficit stood at 23 billion francs. The latter figures have prompted some commentators to argue that the Barre plan was launched primarily because of the untenable deficit with West Germany, which, they say, has turned France into an economic satellite of its neighbor across the Rhine.

EEC capital goods exports

(in percent)

	France		West Germany		Italy		Great Britain	
	Other EEC	Outside EEC	Other EEC	Outside EEC	Other EEC	Outside EEC	Other EEC	Outside EEC
1965	13.0	11.6	38.1	37.8	11.4	9.2	14.3	32.2
1970	16.2	13.3	38.6	40.1	12.5	11.8	12.4	25.0
1975	18.6	16.8	36.4	41.0	10.9	11.6	11.9	20.1
1976	17.4	17.6	38.0	42.6	10.5	10.9	11.1	18.2
1977	17.4	17.1	38.3	43.0	10.5	11.5	11.9	18.3
1978*	18.5	16.6	37.0	42.4	10.2	10.9	12.3	20.4

*1st quarter

Source: *Eurostat*, Bulletin mensuel du commerce exterieur

The above chart shows the percentage share of EEC capital goods exports held by France, West Germany, Italy, and Great Britain respectively. The figures for exports are broken down between exports to the other eight nations of the European Economic Community, and exports to nations outside the EEC.

France is, conversely, heavily dependent on its trade with the East bloc and the Third World, as the following breakdown of the 1978 industrial goods surplus shows:

- East bloc: FF7 billion
- OPEC countries: FF25 billion
- Non-oil-producing African countries: FF10 billion
- Developing Latin American countries (non-oil-producing): FF5 billion
- Non-oil-producing Asian countries: FF3 billion

The most disturbing feature of France's foreign trade last year is the regression of its industrial goods exports to the developing countries—a meager 2.5 percent increase in value—at a time when West Germany increased its exports in the same categories by 20 percent. This also accounts for the sharp drop of France's capital goods export surplus last year, down 13.6 percent.

Consequently, while the average annual increase of French manufacturing products exports to the developing countries reached 20 percent for each of the years from 1974 to 1977, last year it dropped sharply to only 2.5 percent (an increase of FF1.6 billion). This corresponds to an actual reduction in volume.

Barre's plan a failure

By its own standards the Barre plan has proved to be an utter failure. Investment has been stagnating for four years, with no foreseeable prospect of recovery; inflation is still galloping at around 10 percent, unemployment is rising and the competitiveness of French exports is seriously threatened.

"One can contemplate an upturn in investment in France only if we simultaneously accept a deficit in our industrial balance. The reason is that our country does not have an industry producing certain types of equipment (and because) of the physical limitations of the productive capacities when equipment is built in our country," wrote Mr. Gerard, the former Rapporteur General of the Industry Committee at the Commissariat au Plan. There lies the crux of the problem. Only a massive, dirigist investment plan in the high-technology sectors of industry, which necessarily calls for substantial imports of capital goods, will enable French manufacturers to meet the challenge of international competition and contribute to the development of the Third World. Whatever the "imbalances" in the short term, such a plan is the only truly anti-inflationary approach to French economic recovery. In short, the very antithesis of the economic policy known as the Barre plan.

—*Alain Lemal*

'The energy war has begun'

There are a number of true and important statements in this book, which was written for a broad audience by the director of an energy information center affiliated with the giant state utility Electricité de France. Taccoen insists that the underdeveloped countries are "too poor to forego nuclear energy," in the book, whose title in English means "The Energy War Has Begun." They cannot afford enough oil at current prices. Extraction and distribution of coal is too expensive, and hydropower can meet only a fraction of their needs. For lack of energy sources for industry, the "famine chain" begins: deforestation and use of dung for fuel leads to erosion, lack of fertilizer, drought, starvation, and epidemics.

La Guerre de l'énergie est commencée
by Lionel Taccoen
Paris: Flammarion, 1978
305 pp.

The danger of nuclear arms proliferation, Taccoen says, is not a question of materials, and should not obstruct Third World civil nuclear power. Furthermore, Europe should stop acting "hypnotized" by Third World trade competition and adapt to the potential markets in that sector. To meet the advanced sector's own energy needs, giant long-term investment must be mobilized—for example, to develop international liquefied natural gas transport networks—and this above all requires elimination of military tensions.

But the principles and the concrete policy measures implied by these observations are, throughout the book, undercut or contradicted outright. Taccoen is not a partisan of nuclear and hydrocarbon development because they provide the energy volume and intensity required for world industrial growth. On the contrary, he sees nuclear fission as an adjunct to energy conservation—and energy conservation as a dictate of the slow-growth world he advocates, supplanting "naive faith in technology" in the advanced sector and a Third World with currently "too many children and not enough ancestors."

Taccoen argues that we are not in an energy crisis: the post-1973 world scarcity of affordable fuel is the normal state of affairs. The era of cheap, abundant oil and the "blind revolution of oil-primed growth" if allowed constituted "an extraordinary fluke." The environmentalist movement represents no conspiracy, he says, but a "powerful and sincere" demand for a society with "a human face": environmentalism has the great merit, exemplified by the Friends of the Earth, of posing the necessity for conservation of resources.

The point is not simply that with friends like Taccoen it would appear the partisans of nuclear power need few enemies. What the book expresses and exploits is a pervasive continental European mentality that feeds the cowardice exhibited in the persistent European endorsement of James Schlesinger's U.S. energy policies by the French and West German governments. For that mentality there is a fixed universe, and Europe got a rotten piece of it in terms of raw materials and indigenous fuel sources. Therefore Europe must cut back to survive; therefore Raymond Barre must be allowed to proceed with austerity and rationalization in France; therefore the antigrowth Jusos (Willy Brandt's Young Social Democrats) must be welcomed as a legitimate element in West German political life.

"Leave some for the others"

Taccoen deplores Japanese nuclear power cutbacks because they will increase "the crowd at the Mideast wells" and impel Japan to grab more Mideast industrial contracts away from France to cover its balance of payments. The same is true of less-developed countries whose workers slave to pay national oil bills and undersell French manufactured exports. As for the United States, "from a strictly European point of view" it should switch to a coal-based economy, since an all-out U.S. nuclear commitment would squeeze world uranium markets!

By the same token, the virtue of developing a full fast-breeder, waste retreatment nuclear cycle in France does not lie in economic expansion—Taccoen insists that France will not and should never again experience a period of rapid growth—but in the enhancement of French "independence." At the same time solar power, wind and water mills have "a role to play" in ensuring that not only the nation but individual villages and buildings have "autonomy" from the breakdowns threatened by central power grids.

On the international level, Taccoen concludes that the "population explosion" is an act of defiance by the oppressed, who will insist on industrializing; but they can never reach the U.S. level of living standards, and the best hope that "Westerners" can disabuse the less-developed countries of this aim is the current disunity among the latter. The North-South dialogue is futile; what is needed are "strong international organizatons" to control multinational corporations and promote redistribution of fuel to the poorest, while the Arabs properly cut back their total production.

This perspective not only inverts Taccoen's call for cooperative long-term investment, but belies his introductory comments on energy applications. There, he views industrial output gains as an exponent, not a one-to-one function, of energy consumption, given the right kind of energy: "From earning a doctorate in thermodynamics, I recall that different forms of energy have very different values. With one glass of water at 60 C. two glasses at 30 can easily be made. The reverse is difficult. How to explain to the starving inhabitants of the Sahel that the calories they receive from the sun on their poor carcasses are mathematically equivalent to those contained in a good steak?" The introduction goes on to summarize the benefits of French postwar mechanization of agriculture, including the transformation of the peasant labor force.

But for the future, entropy is the thermodynamic principle. The book tallies available world energy resources in the year 2000, including 4.5 billion tons of oil, coal equivalent to 3.6 billion, nuclear 1.5 billion, gas, 3 billion, hydropower, 1 billion, and "alternative energies," .5 billion. The total proves that "the energy future is going to be disagreeable." This superficially adjusted projection from 1977 involves no real analysis of possible investment strategies—including crash international development of Siberian resources—or differential returns on investment in various energy sources. Thermonuclear fusion power is mentioned in a single paragraph which blandly states that fusion will be unfeasible before 2000, period; this compares with prolonged examination of such options as introducing solar power to the grey northeast of France.

It should not be necessary to spell out the fact that transfer of nuclear technology to the Third World is incompatible with austerity and "conservation" in the advanced sector, or that the autarkic economics mooted by Taccoen are on NATO's blueprints for war. It should not be necessary to state that the alternative to accelerating the rate of technological advances which permits increasing rates of tangible social surplus is not a nice, clean "steady state," but genocidal breakdown. Since this effort is, however, urgently necessary, the European Labor Parties' electoral campaigns for the Strasbourg European Parliamentary elections are starting to make it into the stuff of continental politics. The energy war—which is essentially the battle for universal reason against Taccoen's Malthusian scramble—has begun in earnest.

Would de Gaulle have countenanced chatter about "productivism," "hierarchization," and "basic needs" issuing from what ought to serve as a major French center for mass education? Whether M. Taccoen himself should be spanked, tutored, or charged with abetting "sincere" terrorist attacks against nuclear advocates and installations is one question. The larger question is when the European Monetary System founders will join in mobilizing a population eager enough to rid itself of the half-a-loaf, centimes-in-the-heater outlook and bring in a scientific age.

—*Susan Johnson*

Soviet scientist condemns the Harrisburg nuclear scare

In a major political and scientific statement, A. P. Aleksandrov, President of the Soviet Academy of Sciences, condemned the media scare over the Harrisburg Three Mile Island plant as part of "the campaign against atomic power."

In a prominent feature in Izvestia April 11 Aleksandrov described why the Soviet Union is committed to "restructuring" its energy base in favor of nuclear energy. According to Aleksandrov, workable fusion energy reactors could appear within 10 years.

In his article, which presents in great detail the latest developments in nuclear energy, Academician Aleksandrov also explained that solar energy is no solution to the energy crisis.

In the excerpts below, Aleksandrov proves the case that "a reasonable energy policy and the utilization of the achievements of science gives humanity the possibility" to avoid "the unfortunate prospect of a not too far away total energy crisis."

Energetics is essentially the basis of the economy, technology and the lives of people in our time. Leonid Ilich [Brezhnev], speaking at the November (1978) Plenum of the Central Committee of the Soviet Communist Party, said that it is difficult to overestimate the importance of the fuel-energy complex. In the beginning of our century, world energy demand doubled approximately every 50 years.... Electrical energy is doubling now approximately every 10 years in the more developed countries.

What explains such swift growth? It would seem that the more technological processes are perfected, the less energy must be used per ton of production. It is also like this in reality: the improvement of technologies increases the output of production per kilowatt hour spent. But the world population grows quite quickly, and this demands an increase in the quantity of production. Now the planet's population is approximately 4.5 billion, but at the end of the century it will be 6-6.5 billion. This already demands an increase in the expenditure of energy resources.

Besides that, there is an industrialization process going on in the world. This demands additional outlays of materials...

The necessity to increase the fertility of the soil also increases energy expenditures in cultivating the soil and its products, and in the production of fertilizer.

Finally, many natural resources which previously could be easily reached because their deposits were close to the earth's surface, are now exhausted; to reach them one must go deep into the earth or the continental shelf.... All this taken as a whole leads to an extraordinarily rapid and inevitable growth of energy demand, far outdistancing population growth. ...

However, world supplies of oil and gas are limited. If you take into account the growth of energy demand, they might be exhausted in 20 or maximum 50 years. It must also be taken into account that oil and gas are not only energy raw materials. It would be extremely important to keep them for a longer period as raw materials for acquiring a whole range of chemical products, plastics, etc. ...

The approaching exhaustion of world oil and gas supplies has now become a very sharp political and economic problem. A number of the major capitalist countries import all or a significant part of their oil, in large part from the Arab countries of the Middle East. The impossibility of acquiring oil means for any of the capitalist countries full economic breakdown within three to five years. In the fight for the remaining oil and gas, the Western countries will try all means of pressure up to using arms against the oil-owning countries. The preparation for this is already underway.

It would seem that humanity faces the unfortunate prospect of a total energy crisis not far off. However, a reasonable energy policy and the utilization of the achievements of science gives humanity the possibility to avoid this crisis. Atomic energy and coal provide the possibility in principle of building energy on new foundations.

It is precisely in this area that fundamental scientific research has shown its exceptional efficiency. As is known, the development of research in the physics of the atomic nucleus makes it possible to avert the threat of an energy crisis by using the energy freed by several reactions of the atomic nucleus.

... The thermonuclear synthesis of light atomic nucleii is so far realized in an uncontrolled form in thermonuclear bombs, but thanks to the efforts of scientists it will soon be realized in a controlled form. It is likely that within 10 years, the first experimental thermonuclear power stations will appear.

The necessity of economizing as much as possible on oil and later on gas too, will inevitably lead to increased use of nuclear energy.

... The first nuclear power station was put into operation in our country; other countries followed. The construction of major nuclear plants began and optimistic prognoses of their development were made. But soon abroad, especially in the U.S.A., a braking of this process began. From the U.S.A. the polemic spread to other western countries. What does this mean? Of course, atomic energy has a significant negative side—the radioactive wastes which must be reliably stored for a long time to avoid pollution of the environment. This is an important engineering problem, but it can be reliably resolved for any dimension of energetics. Further, detailed investigations of the damage to the environment by coal-powered electric stations have shown that the harm from them is substantially larger than from nuclear plants. The real state of affairs about the noise around the construction of atomic plants is something totally different. The development of large capacity atomic power stations could threaten the profits of the fuel monopolies.

The reverberations in the Western press on the accident at the atomic reactor in Harrisburg, U.S.A., when some essentially small unpleasant consequences were described in an extraordinarily exaggerated manner, are also a continuation of the campaign against atomic power. ....

The inconsistent position of the U.S. authorities in questions of energy development is determined by their weakness before the oil monopolies, and on the other hand, their understanding of the inevitability of the broad development of atomic energy, fission as well as fusion, of the inevitability of guaranteeing energy development through plutonium production.

The broad development of atomic power of all kinds through self-generating nuclear fuel and the increased utilization of coal is the only reasonable way to avoid an energy crisis.

Today it is not too late to move towards the restructuring of energy. The Soviet Union is making confident steps in this direction. ....

The breeding of the new plutonium fuel is extremely important. We must be capable of breeding this new nuclear fuel with the same speed we need to develop the energy industry. ...

The doubling of the mass of nuclear fuel in the whole power system must occur in substantially less than 10 years, which corresponds to the rate of growth of energy capacities. I think that this task will be solved by Soviet scientists in the next two to three years on the practical level. ...

What significance will thermonuclear energy have, if nuclear energy already has such excellent prospects? Does it make sense to employ it?

There can only one answer—yes, it makes sense. First, by combining the thermonuclear station with the breeding of plutonium, the problem of the rapid increase of the scale of electric power can be solved. It is not excluded that this might be necessary, for example, to regulate the climate of the planet. Secondly, thermonuclear energy will produce less radioactive waste, and for large-scale energy this can have important economic advantages.

The question remains, why a major stake in atomic types of energy and the use of coal and not on solar energy, thermal energy, wind, etc. ...

... The small average density of solar energy of the earth's surface does not allow for realizing economically justifiable major energy projects. ...

LaRouche or fascism

Labor Party leader only candidate opposing Carter reorganization

The choices posed for the American electorate have become sharply posed this week as details leaked out of sweeping governmental reorganization plans being implemented by the Carter Administration which closely parallel the legislative steps that paved Hitler's way to power in Germany. With the package being pushed by precisely those Administration figures—Cyrus Vance, James Schlesinger, etc.—who are most closely associated with efforts to place Republican Alexander Haig in the White House following the 1980 elections, the only clear-cut alternative to date is U.S. Labor Party chairman Lyndon H. LaRouche, Jr., who has gained recognition through his precise warnings of the war danger posed by the Carter Administration's geopolitical policies, and for his program for expanding industry and world trade.

The question now: To what extent will LaRouche garner the support of key layers from business, industry and labor for his fight to preserve the American System of economic progress? LaRouche and his supporters have widely circulated a program to bring the faltering U.S. economy out of its depression doldrums. That approach, first outlined by LaRouche in his 1975 proposal for an International Development Bank, called for the United States' immense industrial capacity to be utilized in technology transfers to the lesser developed countries. Specific proposals were outlined to step up the U.S.'s exports, and particularly its nuclear technology.

LaRouche and his collaborators have shown that an era of economic growth is not only possible, but that it is the desire of Europe, the East bloc, and what LaRouche estimates at 70 percent of the American public.

The difference between LaRouche's program, and the Schachtian austerity and government reorganization package of the Carter Administration and Haig forces is clear, but there is an alarming tendency among industrialists, e.g. in steel, to accept the Schachtian package propounded by the Haig forces.

Key sections of the population are already beginning to recognize that LaRouche is the effective alternative. On April 12, Dr. William Banks, supreme president of the International Masons and president of WGPR-TV in Detroit, announced his endorsement of the LaRouche campaign. Citizens for LaRouche spokesmen say that there are more such endorsements in the works.

—*Anne-Marie Sawicky*

Masons' leader endorses LaRouche for President

Following is the text of the presidential endorsement of U.S. Labor Party chairman Lyndon H. LaRouche, Jr., by Dr. William V. Banks. Banks is supreme president of the International Masons and president of WGPR-TV in Detroit.

I, Dr. William V. Banks, endorse Lyndon H. LaRouche for President of the United States of America in 1980. I have met with Mr. LaRouche and he has the moral fiber of an individual who can get the United States out of its present crisis. Not since the Civil War of the last century have we had such a crisis of leadership. Abraham Lincoln had the moral capacity to pull behind him black and white labor, industry, farmers, bankers, and small merchants to reinstitute the American System of progress, scientific development, and education necessary for future generations of Americans. Of all the presidential contenders, Mr. LaRouche is the only one who represents the qualities of Lincoln.

A new type of Civil War has ripped across our country. Whole sections of our young people are being destroyed through the use of drugs. They need a leader to look to who represents a productive future for them and their posterity. Our young people must have a generation on whose shoulders they can stand and are able to use this experience to increase their own morality and will. From my personal experience with Mr. LaRouche I feel he has dedicated his life to the future of our children.

Reorganization: behind-the-scenes coup

Under the direction of President Carter's Reorganization Project, established in 1977, a sweeping reorganization of the federal government is in process without fanfare and with little public notice. It is aimed at centralization of all foreign policy making and subordinating the economy to these foreign policy objectives. In effect a cold coup against constitutional government, the methods and underlying policies of the reorganization package bear close and ominous parallels to the process by which Adolf Hitler acquired dictatorial powers in Germany in the 1930s.

The objectives of the reorganization were spelled out by Samuel Huntington, former National Security official and advisor to the reorganizaton group, in his book *The Crisis of Democracy*. The book was written for the Trilateral Commission, when current NSC head Zbigniew Brzezinski was its director, and Brzezinski was deeply involved in writing the book. In the book Huntington declared, "Some of the problems of governance in the United States today stem from an excess of democracy...(What is) Needed instead is a greater degree of moderation in democracy." The Reorganization establishes the government structures through which a President Haig is slated to implement global international austerity as the Council on Foreign Relations details in its 1980s Project.

Immediately after President Carter took office, plans for implementing government changes began, under the cry of cutting bureaucratic waste. In March 1977, Congress passed the Government Reorganization Act, giving the President authority to submit to Congress plans for reorganization that unless vetoed by the Congress would become law within 60 days.

The source of these sweeping proposals is the Reorganization Project established by Carter in the Office of Management and Budget, under the direction of OMB Director John White, a former top Rand Corporation official. With five major divisions and subdivisions, the project is a hidden government within a government. The most important division is the National Security and International Affairs division under the direction of Peter Szanton, one-time President of the defunct New York City Rand Institute.

The National Security and International Affairs division has three subdivisions, on trade, the consolidation of foreign policy and military command reorganization. The trade subdivision intends to put all the trade functions of State, Commerce, Treasury, Agriculture and the Export-Import Bank under one roof, either as a new Department of Trade or into one existing agency, which would serve as an effective coordinating point for trade warfare. Officially, this will be proposed by early May.

The National Security division also drafted the proposed International Development Cooperation Administration, which consolidates all Agency for International Development (AID) programs, Overseas Private Investment Cooperation (OPIC) which insures corporations abroad, and U.S. contributions to the UN aid agencies. It also establishes an Institute for Technological Cooperation geared to foisting "appropriate technology," more explicitly, deindustrializaton programs on the Third World.

Carter declared in March that the aim of this particular reorganization, which will be formally introduced into Congress in late April, is to ensure that "the efforts of the U.S. bilateral programs and those of the multilateral development institutions are complementary," or that the international austerity policies of the International Monetary Fund and U.S. overseas lending programs work hand in hand.

The second subdivision of this group is consolidat-

The precedent: Hitler's Enabling Act

The reorganization program of the Carter administration, which permits the Administration to enact sweeping changes in the structure of government unless specifically vetoed by the Congress, has an ominous parallel in a similar program in Nazi Germany. In 1933 the Reichstag passed a law titled Enabling Act, which gave Adolf Hitler the power to issue decrees which, unless voted down or otherwise changed by the Reichstag, were law. Eventually even that power to change decrees was eliminated. Ministries announced policies and issued decrees, while the power of the Reichstag was successively destroyed. Under the Enabling Act, ministeries were at the same time created, merged, and consolidated, as required by the needs of Hitler's volatile war economy.

ing the foreign policy making apparatus and ensuring that economic policy is coordinated with it. In the words of Peter Szanton, "We are working on national security, foreign affairs and foreign economic programs." Another aspect of this reorganization is to break the independence of the traditional U.S. military. "We want to look at the relationship between State, Defense, the NSC and the OMB. We want an integration of foreign policy and national security policy.

The third part of this division focuses on restructuring the military command structure, in particular breaking the chairman of the Joint Chiefs from his ties to the military services. Szanton is working closely with a reorganization group under Deputy Secretary of Defense Charles Duncan. Duncan's position has already been beefed up by Harold Brown; he functions as a coordinator of military and political policy.

Another section of the reorganization project is focusing on militarization of the country's natural resources. The Natural Resources and Environment division, in conjunction with the National Security Council, drafted plans last year for a crisis management command structure for all the emergency preparedness agencies.

Their emergency preparedness apparat was accomplished in line with NSC policy memorandum PRM-32, drafted by the NSC staffer Samuel Huntington, which completely revamped U.S. military policy, and became law April 1.

Currently, this same team has drafted a scheme for a Department of Natural Resources to consolidate Agriculture's Forest Service and Commerce Department's National Oceanographic and Atmospheric Agency into a powerful Interior Department. The new agency would control mineral and agricultural development of extensive sections of the Western states as well as control offshore oil, gas and mineral development.

—*Barbara Dreyfuss*

Reorganizers talk about their program

An interview with Mr. Ralph Furtner, Deputy Executive Secretary of the Defense Organization Staff under Harold Brown was made available to this news service.

Q: *What are the programs that you looked at in the reorganization program?*
A: We have worked on three programs, departmental headquarters staff reorganization, defense resources management and the command structure. In late June the report will be ready for Harold Brown's decisions.

Q: *What was the command structure review all about? I understand there was an emphasis on making the chairman of the Joint Chiefs less responsible to the Joint Chiefs.*
A: In the command study, we looked at the relationship of the role of the Joint Chiefs to the national command authority. We looked at the fact that the joint chiefs have to function as head of a military service and as part of the joint chiefs. We have proposed that the chairman of the Joint Chiefs be strengthened as an independent military advisor to the President and Secretary of Defense. He would still speak for the Joint Chiefs but...we are asking him to speak out independently of the military branches on resources management.

Q: *What do you mean by resource management?*
A: What we mean by resource management is planning, programming and the budget adquisition process. On planning, we propose a planning office under the undersecretary for policy. We want to integrate political and military planning under the Secretary of Defense for policy.

Q: *Hasn't Secretary Brown already done some reorganization?*
A: We looked over the proposals that were made and done by Secretary Brown when he came in, particularly the role of the service secretaries. We decided that they were vital for the civilian control of the military. The undersecretary for policy was set up by Brown. This integrates the political and military policy.

Congressional Calendar

Opposition mounts to Department of Natural Resources

Growing opposition to the President's plan to create a Department of Natural Resources has already surfaced in the Senate even though the proposal has not even formally been introduced. Already Senators Talmadge (D-Ga) and McGovern (D-ND) have drafted a resolution denouncing the scheme and have 26 cosponsors to their resolution.

The Administration's plan is to have the Interior Department take control over critical natural resources on federal lands and offshore areas. The proposal was drafted by the staff at the President's Reorganization Project in the Office of Management and Budget who were responsible for the reorganization of all the emergency and civil preparedness agencies and is part of the overall effort of this project to militarize the economy. Specifically, the reorganization would remove the National Oceanographic and Atmospheric Administration from the Commerce Department, thus giving the new Interior Department control over all offshore oil and gas drilling and mineral ventures.

It would also transfer the Forest Service from Agriculture into the new department, giving the new agency oversight of the agricultural, logging and mineral development of the huge federal lands now supervised by the Forest Service. "The Department of Agriculture provides vital services and shouldn't be torn apart. It plays a vital role in rural development," declared an aide to one Senate opponent of the proposal.

The Senate opponents to the plan are being spurred to act by a strong lobby of farm groups, mining associations, and people coordinating water resources programs, who understand that the bill will increase environmentalist control of resource and agricultural development. At least some of the latter expect that if the Administration does not get their way in this proposal, they will use other programs for a similar end.

The bill is expected to be introduced into Congress in early May and becomes law within 60 days *unless vetoed* by Congress. According to one Capitol Hill insider, a leading member of the reorganization group, Bert Carp, formerly a top staffer for Vice-President Mondale, admitted at a private meeting with congressional representatives last week that the opposition has the votes to defeat the measure but that the administration will submit its proposal regardless.

Agricultural development hangs in the balance

The fate of over one million acres of some of the world's most productive agricultural lands is at stake, as Congress and the Administration grapple with the future of the Reclamation Act of 1902. The Act limits the size of farms that receive irrigation through federal programs to 160 acres. However, because that small acreage allotment is not the most productive nor profitable under modern farming techniques, the Act has not been strictly enforced.

But in August 1977 the Interior Department, in response to a legal action taken by environmentalist groups, drafted a set of rules on how the acreage limitation was to be strictly enforced. To slow the immediate curtailment of federal irrigation programs for large farms, or the forced breakup of larger farms, a U.S. District Court in California ordered a stay on enforcement of the strict guidelines in December 1977 until an environmental impact statement on the Interior Department guidelines is drafted. This is expected by early next year, so several Congressmen have introduced laws revising or abolishing the 1902 Act, to head off the Interior Department schemes permanently.

At stake is over 1.2 million acres, the bulk of which is in the Westlands Project or the Imperial Valley in California, land that has been made some of the world's most productive because of federal irrigation programs. Senator Goldwater (R-Ariz) has introduced a bill endorsed by the American Farm Bureau repealing the 1902 law. Others, including Senators Church and McClure have bills raising the acreage limitation for federally aided lands. Action on this issue is expected this session of Congress.

Ribicoff-Javits terrorism bill revived

The antiterrorism bill offered last year by Senators Abraham Ribicoff (D-Conn.) and Jacob Javits (R-NY), providing for mandatory economic and political warfare against selected target nations in the developing sector, has been revived and reissued as S-333. Hearings are scheduled in Ribicoff's Senate Governmental Affairs Committee sometime in May.

The bill is expected by its advocates to pick up support as a wave of Camp David-scripted "Palestinian terrorism" hits western Europe and the United States.

The proposal would require the President to publish a list of "countries which aid and abet international terrorism." Sanctions would be automatically applied against nations on the list, including:

1) refusal of all U.S. foreign economic aid

2) refusal of U.S. credit for defense purchases

3) refusal of licenses for U.S. exports of sensitive materials

4) the end of duty free treatment for the affected country's exports

5) citizens of those countries would not be allowed to enter the U.S.

In addition, the bill would require the federal government to publish a list of all international airports deemed "unsafe" for travel by U.S. citizens because of insufficient anti-terrorist measures.

It is widely understood that the bill's chief sponsors, strong supporters of Israel, intend to use the measure against selected Arab nations, as a blackmail weapon to force support for the Camp David accords. However it has been learned that several Capitol Hill offices are preparing a counter to the Ribicoff-Javits bill that will define terrorism as any violence against a noncombatant population, immediately opening up Israel for sanctions because of their activity in Lebanon. Sources have confidentially told this news service that they would oppose the Ribicoff-Javits bill because "it lets Israel off the hook."

The bill is also aimed at critical nations in the Third World advancing economic development policies. One staffer working on the bill emphasized that Mexico City is considered by the Department of Transportation an unsafe airport for air transit. Therefore, under the Ribicoff-Javits bill, it would be considered unsafe for Americans.

Restricting U.S. exports of nuclear-associated technology is another important aspect of the sanctions provision of S-333, committee staff says, ostensibly to prevent nuclear weapons and / or components from falling into the hands of terrorists.

Fed membership bill killed through compromise?

Capitol Hill sources are talking about compromising H.R. 7, the Federal Reserve membership bill or Monetary Control Act, having it emerge from the House Banking Committee in a virtually useless form. After a first markup, the bill was voted down by the narrow margin of 21-20 in March, following across the board Republican opposition led by Rep. William Stanton (R-Ohio). The bill would impose mandatory, federal membership and reserve requirements on all commercial banking and thrift institutions with demand and / or thrift institutions with demand and or thrift deposits over $50 million.

Its significance is that thousands of regional banks now clearing through their reserve city bankers would have those private sector banking relationships broken and be forced to clear payments through the Fed.

A well-placed staff member on the Senate Banking Committee revealed how the opposition intends to change the bill enough to force bankers who now support it to break with Fed Reserve Chairman Miller:

Q: *What is the status of HR-7?*
A: The ball is on the House side right now. That House Banking Committee held a closed door meeting on April 9 to see if they could come up with a compromise that can get out of committee. They didn't resolve anything, but they will keep working on it after the Easter recess. We won't do anything on it until the House Committee moves.

Q: *On that first point about lowering the reserve requirement—wasn't it Fed Chairman Miller's raising the requirement to $50 million which brought the Independent Bankers Association on board in favor of the bill in the first place, since most IBA banks fall below the threshold? Hence, wouldn't they then be affected by the bill? Doesn't that mean that the supporters of the bill might now lose the IBA support?*
A: (Laughter) Yes, how about that little problem....

Q: *If the House passes a compromise, what will the Senate Committee do?*
A: I think we can compromise it some more. We will put forward another bill which will made the Fed more attractive, but remove the mandatory requirements.

Q: *Like Senator Tower's bill?*
A: The Tower bill or something like it—offering interest on reserves, charging interest during floats.

—**Donald Baier and Barbara Dreyfuss**

Mexico: Carter Administration regroups for a new attack

A reorganized Carter Administration approach to U.S.-Mexican policy takes shape this week with the expected appointment of former Texas congressman Robert Kreuger to a newly created "super ambassador" post to coordinate all aspects of U.S.-Mexico policy.

It will be an extraordinary position, corresponding to the "special negotiator" role recommended by the recent Brzezinski-coordinated Presidential Review Memorandum on Mexico, PRM-41. Kreuger will report directly to the White House, not the State Department. He will coordinate U.S.-Mexico policy issues arising in at least half a dozen separate departments and for the first time provide the Administration with centralized control over the multi-faceted strands of policy toward our southern neighbor.

But there should be few illusions that the move represents a step forward in the U.S.'s troubled relations with Mexico. All indications are that basic U.S. policy remains the same: policy that President Carter brought with him on his disastrous February visit: undermine Mexican government stability, spike Mexico's ambitious development programs, and lay claim to Mexico's abundant oil as a U.S. "strategic reserve." The "super ambassador" position merely admits the failure of previous channels to carry out such a policy effectively.

Equally ominous is a renewed surge of "Iran scenario" warnings from the same British circles which seem to be dictating so much else of Administration policy. Last time around, in the month preceding Carter's inglorious February safari, it was Energy Secretary Schlesinger who explicitly voiced "concern" that Mexico could be heading into Iran-style upheaval if it did not curb its appetite for development. The Energy Secretary spoke in the same terms used by earlier released evaluations in British conduits.

Do not dismiss these "Iran warnings" casually: British intelligence played a profound role in the events which have plunged Iran into Dark Ages chaos. When a British spokesman, perhaps echoed in American accents in Washington, states that "Mexico could be another Iran" unless it cuts back on its development programs, translate that "concern" into instigation of phony left and backward peasant opposition groups, economic warfare, terrorism, "human rights" campaigns and a raft of other destabilization tactics. In the case of Mexico, not the least of these tactics is pressure against undocumented workers in the U.S.

Mexico is more than holding its own against two such operations at the moment—terrorism and activation of its "Free Enterprise" economic saboteurs—but the current overhaul in the Administration command structure portends a serious escalation in subversion operations to come.

Written in Britain

The latest direct British contribution to the "Iran scenario" theorizing about Mexico appeared in the March issue of the City of London propaganda sheet, the *International Currency Review*. This striking master plan for the destruction of Mexico (see quotes in box) reads with such unremitting venom and cynicism that the final Eeyore-esque "Whichever way one looks at Mexico's prospects ... they remain uncompromisingly dismal," is almost laughable. But the prescriptions for destabilization salted throughout the text certainly are not.

The London Economist magazine was equally outrageous—and revealing—in its prescriptions for destabilizaton in a late February issue. The weekly's lead editorial, entitled "Sombrero Power," got so carried away with the alleged Iran parallel that it absurdly asked if Chicanos in the U.S. "as exile communities usually do (sic), will demand from their homeland the democracy and human rights that they enjoy in the United States?"

In an eye-opening admission of British intelligence tactics, the editorial urges the U.S. to give itself "room for maneuver" in Mexico by attempting to "communicate with the opposition movement, most of it underground, while not miffing the Mexicans in power. ... Some lessons need to be drawn from Iran."

Putting additional touches to the model, Britisher Alan Riding writes this week from Mexico for the *New*

York Times that Mexico's industrialization programs may push the "neglected" rural population into revolt "with the government apparently determined to channel its growing oil revenues toward heavy industrialization, some Mexican analyses predict aggravation of the existing phenomenon of "dual societies"—one urban and full of opportunities, the other rural and gripped by hopelessness."

Terrorism contained

What makes the gnashing of teeth in the Anglo-American establishment so audible is precisely what continues to make Mexico the premier partner for U.S. progrowth factions who wish to establish ties for mutual high-technology development. It is the depth of Mexico's development commitment and the strength of its republican institutions.

Take the case of terrorism. Sporadically over the past year, and more intensely over the past month, terrorist actions designed to destabilize the government and precipitate panic in the right-wing business community proliferated. But police forces moved strongly and as of this writing, over a half dozen of the miniscule numbers of "underground" terrorist leaders have been picked up or killed by government forces. No serious threat to the government emerged.

The secret? For one thing, the government let it be known through friendly columnists starting last fall that any terrorist upsurge would be met with an investigation of foreign embassies—particularly the CIA personnel stationed at the U.S. embassy. The West German daily, *Frankfurter Allgemeine Zeitung*, reported April 10 that Mexico's antiterrorist units had indeed received updated orders to investigate certain "police officials and several embassies."

More important, the Lopez Portillo government's unshakeable defense of national sovereignty and the use of natural resources for in-depth industrialization are highly popular policies. His administration has embarked on a successful political reform program which brings a broad range of left and right parties into legal political channels. The ground has been cut from under the traditional "sociological explanation" of terrorism as "legitimate criticism denied legal expression" and it is significant that in the recent incidents, no parties or press columnists dared provide justification for the terrorists.

For similar reasons, the "human rights violations" charges assiduously leveled against Mexico by British intelligence units such as Amnesty International are unlikely to go far.

Friedman tactics won't work

The government's position is equally strong in relation to the "free enterprise" wing of the private sector. Unlike 1976, when the acolytes of Milton Friedman and the "Chile model" wrecked the Mexican economy with unrestrained capital flight and other economic warfare tactics, the oil revenues increasingly give the government the edge today in determining economic policy keyed to broad national development goals.

The mid-March unveiling of the National Industries Development Plan flushed the most recalcitrant of the Mont Pelerin Society ideologues into the open. The Plan calls for 8 to 10 percent overall growth in the economy, led by 12 percent growth in the industrial sector and 20 percent growth in the capital goods area. More, it offers generous incentives for private sector collaboration.

This was viewed as intolerable by certain private sector spokesmen. With President Lopez Portillo in attendance, the head of the Employers' Confederation, Manuel Clouthier, told the annual congress of his association March 16 that the government limits business activity by "fiscal attacks, administrative corruption and a torrent of regulations that change the rules of the game." Clouthier helped direct 1976 operations against Echeverria.

Two weeks later the outgoing director of the powerful Confederation of Chambers of Industry, Luis Guzman de Alba, railed that the ambitious National Plan of Industrial Development meant unacceptable "state interventionism." "We cannot allow unilateral and authoritarian planning," he threatened.

The Lopez Portillo government, while astutely keeping the "carrot" of benefits from cooperation extended to the business groups, has persistently reminded the private sector that there is a "stick" as well. "If the businessmen do not support the government's efforts to encourage production," stated undersecretary of Industrial Development Natan Warman March 24, "the state will have to increasingly intervene in the economy to directly generate jobs with the oil revenue surplus...."

The semi-official newspaper *El Nacional* warned in a stern editorial April 1, "Let no one force the public sector to replace means of persuasion with sanctions for failure to fulfill obligations."

—*Tim Rush*

'An Iran on U.S.'s southern border'

The March edition of London's International Currency Review could not be more unhappy with Mexico's oil-based development plans:

... How would the United States like an Iran on its southern border? Such an eventuality is far from inconceivable. .. where the inflated oil price is perceived to provide a convenient shortcut to prosperity and social harmony....

... Despite the appalling examples set by countries like Iran, Nigeria and Venezuela, Mexican economic policy makers and international bankers are making exactly the same errors as have undermined stability in those countries.

... The (Mexican) government is extensively exaggerating the importance of oil as an economic panacea—both at home and abroad. If they are not careful, Ministers will light a fuse which will eventually destroy the country's social cohesion—leaving the United States with a chaotic situation on its southern border which could prove extremely difficult to contain.

... The experience of many other countries has made it perfectly obvious that there is no economic future in the relentless expansion of the public sector. (In Mexico) as might be expected the powerful Director-General of Pemex (Petroleos Mexicanos) Sr. Jorge Diaz Serrano leads the expansionist lobby. It is Sr. Diaz Serrano who has been responsible for the periodic announcements which have been plastered all over the international press of enormous increases in Mexico's oil reserves.

With the country's political leaders raising domestic expectations all the time (talking of Mexico's new-found wealth and of their grandiose development plans), the unfortunate population would be faced with mounting chaos, physical shortages and declining real income—brought about by raging inflation. What has happened in Iran makes it quite clear that this cannot be dismissed as a wildly improbable expectation....

The Energy Secretary, Dr. Schlesinger, is known to believe that if the United States adopts a sufficiently hard line, the Mexicans will ultimately be forced to comply with its wishes ... an examination of current economic realities in Mexico suggests that the U.S. hardliners will almost certainly be proved right—and that Mexico will be faced with little choice but to comply with the United States' wishes. In the first place, the country has incurred a stupendous burden of foreign debt ...

... With the country virtually 'in hock' to the U.S. banking system, those who are pressing for a nationalistic and conservationist approach to the use of Mexico's oil wealth, and for its deployment as a weapon against Washington's hegemony, are probably whistling in the wind.

Furthermore, U.S. official hardliners are perfectly well aware of the chronic weakness of Mexico's non-oil economy—and of the fact that this weakness makes the country all the more dependent on the oil sector for its survival.

Every year the country has 2.5 million more mouths to feed;...there have been violent confrontations between contractors building the natural gas pipeline from the Reforma energy fields to Monterrey and peasant farmers ... So much for President Lopez Portillo's absurd claim that the country's economic crisis has been 'overcome' since he took office.

These dismal realities all underscore the fundamental lesson which should have been learned by now ...

If the government does change its mind and responds positively to U.S. pressure, the ultimate consequences will be an appalling rate of inflation, social disruption and the collapse of economic expectations. Whichever way one looks at Mexico's prospects, therefore, they remain uncompromisingly dismal.

After the IBT contract—what next?

As negotiators wrap up the remaining details of the national master freight agreement between the International Brotherhood of Teamsters and the trucking industry, a debate is raging inside the Carter Administration over how to proceed further with plans to carry out the Administration's commitment to a national austerity policy.

While inflation czar Alfred Kahn publicly boasts that the three-year Teamster contract, with its 30 percent plus wage and benefits settlement is a "victory" for his 6 percent voluntary wage price guidelines, his own planners are looking at more severe options. These include proposals for some form of mandatory wage and price controls, as supported by AFL-CIO President George Meany, or a possible freeze on wages and prices. Although an agreement has not yet been reached on a new policy, sources close to Kahn report that almost no one expects the voluntary program to hold together in the face of the upcoming bargaining calendar, which includes major negotiations in the rubber, electrical equipment and auto industry.

As of the present, a strike next week by more than 55,000 members of the United Rubber Workers against all major rubber producers except Firestone appears certain. In addition, auto industry sources report that they are bracing for a strike by the United Autoworkers that could affect upwards of 700,000 workers when the union's contract expires September 15. The major cause of these strikes will be the companies' use of the guidelines program—under prodding from Kahn—as an excuse to go after concessions from labor. This was made clear, for example, by a recent spate of ads taken by General Motors announcing their intention to "carry out the full intent of the President's program...."

Kahn and Federal Reserve Chairman William Miller would like nothing better than to see these strikes take place. First, the political climate is not yet ripe enough to secure congressional passage of economic emergency measures. A provoked strike wave might change that.

Second, a strike wave, shutting down whole sections of U.S. industry would accomplish precisely the kind of forced economic slowdown that Kahn and Miller have both called for publicly as desirable "to cool down inflation." Sources report that Miller in fact was upset that the Teamster strike—a strike that had been provoked by Kahn—did not last long enough to significantly slow down the economy by forcing "ripple back" layoffs.

And finally, such a strike wave would also intersect an energy emergency being concocted by James Schlesinger's Department of Energy. Slated to hit by late summer and fall, the gasoline and fuel shortage will provide a handle for additional emergency measures.

These strikes also occur in a climate of increasing desperation within the ranks of organized labor who

Teamster steelhauler strike expected

A strike by 30,000 teamster steelhaulers is expected to go into full swing before the week is out, say sources close to the bargaining in contract talks between the Teamsters Union and the steel industry.

Already, over 5,000 steelhaulers in such cities as Chicago, Cleveland and Pittsburgh are reportedly refusing to return to work as directed by Teamsters Union officials who announced a tentative agreement with the Trucking industry last week resulting in a new Master Freight agreement and ending a 10-day selective strike and industry-wide lockout.

The steelhaulers' contract, while covered by the Master Freight agreement, is in fact negotiated separately. But while there is no actual settlement between the steelhaulers and the industry, it is generally accepted that the master freight accord will bridge the period until an accord in reached. It was for this reason that a back to work order was issued.

Steelhaulers are reportedly upset by what drivers consider to be a low wage and benefit package included in the master freight agreement. This concern, coupled to staunch industry opposition to exceeding the Carter Administration's 7 percent wage guidelines, has surfaced as the major cause of the unauthorized strike. Teamsters Union officials concede that this sentiment is so strong that steelhaulers are expected to vote down the tentative agreement this week, clearing the way for a fully sanctioned strike.

see their standard of living collapsing before their eyes.

Coupled with union busting tactics from management, several recent and bitter strikes have become scenes of police violence not witnessed since the 1930s. For example, the now three-month old strike by Teamsters against dairy operators in the New York metropolitan area last week became the scene of a police riot, when mounted police charged strike pickets to escort a scab truck through the picket lines. A crisis bureaucracy to handle the situation, the Federal Emergency Management Agency, is already in operation.

It is in this context that remarks made late last week by United Auto Workers' President Douglas Fraser take on their real significance. Fraser told members of the UAW bargaining council that the Teamster settlement had "blown apart" the Carter voluntary wage price policy. He boasted that the UAW would totally ignore the program in its bargaining. However, Fraser added that his union would welcome, with open arms, any proposal that would assure "equality of sacrifice" between business and labor. He further stated that unfortunately "no such program was forthcoming from the Carter Administration" at this time.

The Teamsters on 'dissidents'

The following is the conclusion of the exclusive NSIPS interview with Detroit Local 299 Teamster leader Lawrence McHenry. The interview and the fight by McHenry and others against the dissidents in the "Teamsters for a Democratic Union" have provoked outcries of disapproval from the antileadership faction in Local 299. This week, TDU members circulated leaflets attacking McHenry for working with alleged criminal elements in the union and with the U.S. Labor Party, which also published the interview in its newspaper New Solidarity. *It is the TDU, however, which is on the defensive. As a result of the efforts of McHenry and others, TDU meetings have attracted fewer and fewer attendees, and their influence in the recent Teamster strike has been virtually nonexistent.*

Q: *What do you think is the importance of Camaratta's suspension? Locally and also nationally?*

McHenry: It is about time that the Camarattas, and everybody else—other members of the IBT—realize that they do have a responsibility to the International Brotherhood of Teamsters, and it will be enforced. We will not stand for any further flagrant violations of it, any misinterpretations, and misapplications of it, for the so-called members' rights when it is really out to destroy the union, its leadership, and its ability to service the working man.

Q: *Have these charges had any effect on Camaratta and TDU?*

McHenry: Camaratta, in his publication, has tried to make the hearings and the charges a farce, saying they would have no bearing on what his activity would be. Yet Camaratta attended a meeting called for the specific purpose of giving authorization to the international union as far as strike in the contract negotiations and was very quiet; in fact, he didn't even make an attempt to speak, as he has in the past.

It is very evident to me that Camaratta knows that he has been properly charged, and the charges have been roperly sustained, that he cannot do this. And I think evidence of this was yesterday's meeting where he did not get up and resume his normal derogatory remarks, demand for strike, inciting other members to violate the by-laws and constitution.

Q: *Sunday's Local 299 meeting was the big media event of the year for the TDU. They had been building up for two years, and he was not covered by any of the media?*

McHenry: No, as a matter of fact, in the past Camaratta—whatever was going on—was always on major network television news broadcasts. Sunday's event was a major meeting—especially what he has been working for and he was very obvious by his silence. That was the same as saying to me, "Damn it, you caught me red-handed. You nailed me solid. I know I have done wrong, and I am not going to do it anymore."

Q: *People like yourself who also have a background many times longer than Pete Camaratta's concerning members' rights in the union, why are you in a position now of defending the union?*

McHenry: I never have been in any other position. Criticism, if it is for the purpose of construction, if it is constructive criticism in this or any other organization, will make for a better organization. But if it is criticism designed for one express purpose, to destroy, then I am against it.

The International Brotherhood of Teamsters means something to me. I have at times been critical in some areas, but it has been constructive criticism. Some of it has been taken properly and things that were wrong have been righted. But I will not stand for a Camaratta, or a Karagozian, or anybody else—on a pretense of caring about members—to go out and use them and their problems to further their own political ambitions!

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New plan prepared to break U.S.-Saudi oil link

The release of a report on the unviability of future Saudi Arabian oil producing capacity by the Senate Foreign Relations Committee this week is only the first step of a battle plan to break American dependence on Saudi Arabian oil.

According to a New York oil analyst, the Carter Administration is presently embarking on an energy policy course tailored to the proposed "North American Common Market" which is designed to make the U.S. dependent on Western Hemisphere and North Sea energy resources. The concept of a North American Common Market was authored in London and is presently supported by California Governor Brown and prominent personalities within the Zionist establishment; it is being promoted by a prestigious grouping known as the North American-British Committee which includes notables from the U.S. and Canada.

Such a policy of "energy independence" requires that oil prices climb to at least $25 a barrel in order to justify the high costs of new oil exploration and extraction within the Western Hemisphere. The current actions of Senate Foreign Relations Chairman Frank Church, Senator Henry Jackson, Senator Kennedy and other well known Zionist lobby allies are geared toward this strategy, whose outcome will be American dependence on British-controlled energy sources.

During President Carter's speech to the nation earlier this month, he for the first time publicly opposed the practice of oil company tax write-offs using royalty payments to foreign host countries where the companies service extraction and marketing facilities. Such a statement by the President was taken by the oil industry sources as a jab at the substantial tax write-offs which the four U.S. multinational partners of the Arabian-American Oil Company (ARAMCO) enjoy as a result of their servicing the Saudi oil industry. These sources indicate that the four partners, Socal, Texaco, Exxon, and Mobil may soon find themselves the brunt of a coordinated attack on Capitol Hill led by Senator Frank Church and the Foreign Relations Committee on the delicate tax question.

An aide on the Senate Foreign Relations staff revealed this week that Church and Kennedy jointly have employed lawyers to investigate the "complex tax question" with the aim of holding public hearings in a few months. The aide stated that Church wants to tailor new tax legislation to motivate the oil companies to "move away from OPEC oil," and toward "more reliable" sources in the long term.

New York oil industry sources indicate that in the future there could well develop a "double standard" for taxation of oil companies. If the companies lift from the North Slope or the North Sea, both controlled by British financial interests, they may well be able to write off their operating costs. But the source felt sure that that privilege may soon change with respect to Saudi Arabia and other OPEC nations.

The Saudi nationalization

Senator Church has been prepared for some time now to launch a full public investigation into the tax write-offs of the four partners of ARAMCO the minute the Saudis announce that they have fully nationalized the company.

Last month the *Financial Times* or London broke the story that the takeover was complete, and that soon the Saudi National Oil Company (SNOC) would emerge. At present, the Saudi elite is in the throes of a faction fight revolving around a long-time rivalry between First Crown Prince Fahd and Second Crown Prince Abdullah. Abdullah is a known long-time contact of various conduits of British and Israeli intelligence through the fundamentalist Muslim Brotherhood, and works closely with the current head of the Saudi state-owned Petroleum and Mineral Company, Abdel Hadi Taher. The *Times* story reported that Taher is due to become the director of the new SNOC.

In short, the activities of Senator Church, and those presently challenging the Saudi strongman Fahd, are motivated by a common source, the City of London, British Petroleum and Royal Dutch Shell. For years this power nexus and its Israeli allies have tried to break the U.S.-Saudi relationship. From this standpoint, one cannot hesitate to conclude that Senator Church and the Senate Foreign Relations Committee hold a much stronger allegiance to powerful interests across the Atlantic than to the U.S.

—*Judith Wyer*

Nuclear terrorism scenario is 'live'

In the wake of the March 28 sabotage of the nuclear power plant at Three Mile Island, readings of the "environmentalist movement" confirm what intelligence sources have described as a "live" scenario for a nuclear terrorist incident. Such an incident would serve as the pretext for a total shutdown of the nuclear industry in the United States and the enactment of the Carter Administration's plans to override all forms of constitutional government through the Federal Emergency Management Agency.

Sources inside the environmentalist movement report that there is a "tiny but very radical" core in the "greenie" groups who are studying technical manuals for nuclear power reactors and are discussing strategies for infiltrating the nuclear industry as technicians and operators in order to carry out sabotage—from the inside. This grouping has direct ties to the networks who ran the bloody antinuclear riots in Brockdorf, West Germany and Crays-Murville, France in 1977.

The nuclear terrorist scenario was spelled out in vivid detail in reports by Brian Jenkins of the Rand Corporation and David Rosenbaum, author of the 1975 MITRE Corporation report, on nuclear sabotage and terrorism; and also appears in explicit form in the 1978 book, Ultimatum: Pu 94, by Israeli intelligence operative Uri Dan. However, as *Executive Intelligence Review* proved in the Feb. 21, 1978 issue, on *technical* grounds, no isolated terrorist group could possibly carry out such an incident without complicity from the National Security Council and Secretary of Energy James Schlesinger (in the United States), or equally high levels in other governments, such as the state of Israel.

The modus operandi of the April 6 terrorist attack on the Mediterranean Naval and Industrial Construction Company warehouse, a nuclear manufacturer in France, reveals how the scenario will take shape. While credit for the bombing—which destroyed components for a nuclear reactor which was being shipped to Iraq—was claimed by an unknown environmentalist group allegedly acting "to protect humanity from the dangers of nuclear radiation," French counterintelligence circles are discarding that conclusion. Instead, the French press reports that French intelligence is of the opinion that the blast was the work of a highly trained Israeli commando team, deployed by the Israeli Mossad, in order to prevent the Iraqis from obtaining nuclear energy reactors.

The environmentalist movement provides a depth of antinuclear motion in the streets and in the press to give credibility to a nuclear terrorist incident. In the next three weeks, leading up to a mass antinuclear march in Washington, D.C. on May 6, terrorist-laced grouplets, including the Crabshell Alliance in Seattle, Washington, the Shad Alliance in New York City, and the Clamshell Alliance in Boston, are planning "feeder" demonstrations.

"New left" terrorism

The "new left" groupings that have been traditional political and logistical supporters of the Weather Underground, George Jackson Brigade, SLA and other terrorist gangs are now being primed to join the ranks of the antinuclear environmentalist movement. Since March 28 greenie slogans have been integrated into their "class struggle" belief structure. "Capitalism equals nuclear murder" is now a common cry throughout the Maoist, Trotskyist and other radical groups' propaganda, accompanied by assertions of mass murder committed by the nuclear industry at Middleton, Pa.

No major operation is necessary, however, to get a core of saboteurs inside the nuclear industry. The Oil, Chemical, and Atomic Workers Union is already on hand. The OCAW was founded by one of the leading antinuclear proponents in the U.S., Paul Jacobs, who also has connections to the terrorist command center, the Institute for Policy Studies. Since its creation, the leadership of the OCAW has supported the development of environmentalism, with OCAW executive Anthony Mazzocci joining Barry Commoner's antitechnology Scientists' Institute for the Public Interest. Mazzocci is also on the board of directors of the leading environmentalist policymaking body in the U.S., the Natural Resources Defense Fund. Following the Three Mile Island incident OCAW spokesmen denounced nuclear power plants as dangerous.

WORLD TRADE REVIEW

New trade deals

PRINCIPALS	PROJECT / NATURE OF DEAL	COST	FINANCING	STATUS
Republic of Korea from U.S. & others	Purchases being sought by delegation of 40 Korean businessmen in U.S., according to R.O.K. Minister of Commerce and Industry Kak-Kyu Choi (this deal earlier reported by EIR as $1 bn).	up to $2.2 bn. earlier report was	NAv	IV
Egypt from U.S.	4 DC-10 Jumbo jets for Egyptair	$215 mn	$91.4 mn from pvt. sources; $91.4 mn from Eximbank (8.5% loan for 10 yrs, repayable starting Oct. 1981); other 15% as cash payment	III
Brazil from U.S.	Exxon will build for Petrobras an additional cracking unit in southern Brazil	$150 mn	NAv	IV
Brazil from Canada	Alcan will double aluminum smelter capacity in Salvador, Brazil	$100 mn	NAv	NAv
Kenya from World Bank (IBRD)	Telecommunications project of Kenya Posts and Telecommunications Corp (KPTC). For telephone equipment.	$63.5 mn	$20 mn loan repayable in 15 yrs, with 4 yrs grace. Interest rate: 7%	NAv
Colombia from U.S. & others	66-mw thermal plant		NAv. Includes $11 mn in purchases of U.S. goods & services, including boiler components from Davy International	NAv

Cancelled deals

PRINCIPALS	PROJECT / NATURE OF DEAL	COST	FINANCING	STATUS
	Iran will cut crude oil shipments 20-30% beginning this month	NAv	NAp	NAp

Abreviations:
U = Undetermined
NAp = Not applicable
NAv = Not available

***Status:**
I = signed, work in progress
II = signed, contracts issued
III = deal signed
IV = in negotiation
V = preliminary talks

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Gold London afternoon fixing

The Dollar In deutschemarks. New York closing