

economists have to get the problem across to a skeptical U.S. public. I will end with a quote from George Allen: "The future is now," so let's get cracking....

**EIR:** *I am very disturbed by the assumption that has been made throughout this conference in terms of the relationship between energy and economic growth. It would seem to me that GNP does not measure economic growth. For example, if you legalized gambling, prostitution and narcotics there would be a dramatic increase in the GNP, with very little input [laughter]. In that light, I have never seen any study which actually shows no relationship between energy and economic growth. Therefore, it sounds to me as if your program is the same as the Council on Foreign Relations Project 1980s program for controlled disintegration.*

**Schlesinger:** The question is, "Is there a hidden potential that this program may have the seeds of its own destruction?" Energy conservation has been a great success. The coefficient of energy growth to GNP growth has declined from 1.0 to .5. This will not lead to disintegration beyond our present programs. That's what we are worried about and trying to avoid, by limiting demand and making sure we can meet energy demand with full employment.

## Oil hoax: how it could

So far, as this publication has repeatedly documented, there has been no world oil "shortage" in the present crisis. But some Anglo-American moves are being readied in the Persian Gulf area that could not only change that, but plunge the world into a nasty political confrontation as well.

Following policy guidelines laid down by British planners, the U.S. National Security Council will be holding a series of meetings this month to discuss activating contingency plans for an Anglo-American military incursion into the oil-rich Arabian Gulf region. As is well known to experts throughout the energy industry, any such move will *guarantee* the stoppage of the flow of oil from the Middle East.

The military moves will be made to stem destabilization which the British themselves are planning, in areas where British intelligence has played a predominant role historically and to the present. These destabilizations include:

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## Cost of speculation: don't be fooled by forecasters

Businessmen and investors are going to receive not one but two shocks in the wake of the latest round of speculative oil price increases: the first, the impact of the increases themselves on business and industrial activity, the second, how far off the mark are the forecasts of the "Big Three" economic modeling services, Data Resources, Inc., the Wharton School, and Chase Econometrics, regarding those effects. Indeed, the sanguine prognostications of these services seem almost tailored to conceal the purpose of Schlesinger's oil hoax—the savaging of U.S. industry and living standards—and may, according to some observers, lay them open to action by customers who incur losses as a result of misleading predictions to recover subscription fees and possibly actual damages.

### "It ain't that bad"

Chase Econometrics estimated June 6 that the price of oil will be 38 percent above 1978 levels by the end of 1979. "This increase will be "inflationary, harm consumer confidence and hasten the recession," the Chase spokesman said. But just how bad will the effect of the oil price increase be? Well, said Chase, "our computer model projects no growth for the second

quarter of 1979, then declines of 1 to 2 percent in the last two quarters of this year and the first two quarters of next, with an upturn in the third quarter of 1980."

A spokesman for Otto Eckstein's Data Resources International was more tight-lipped: "let's just say, that we will lose one year's growth over the next decade." Further prompting brought the prediction that GNP will fall 3.3 percent."

The Wharton School spokesperson allowed as how they simply took "the Wharton Annual projection, and overlaid the Carter decontrol program on it, without the windfall tax." Wharton's projections would hardly lead anyone to lose much sleep. "We think GNP will fall 0.3 percent for 1980 and 0.7 percent for 1981," the Wharton expert said. "Inflation will increase because of the oil situation by 112 percent in 1980 and another 0.6 percent in 1981. Nonresidential fixed investment will fall by 0.7 percent by 1982."

In a manner totally contemptuous of their clients, then, the Big Three are predicting a mild downward bump in the economy, which business will prepare for by making minor adjustments in inventory, investment, and so forth. In fact, as any one could intuit if they lived through 1973-75, the economy is going to be

## get worse

- use of the British drug-running and “dirty money” base of Dubai as a launching point for “centrifugal” tendencies in the United Arab Emirates. Tension has recently been reported between Dubai and other members of the Emirates;

- crises in the Saudi oilfields manipulated by the fundamentalist Prince Abdullah and his National Guard to create a “state of emergency” in Saudi Arabia;

- exacerbation of the internal crisis in Oman, the strongest bastion of British special operations units in the Middle East. In a series of reports from Oman, *New York Times* Anglophile military columnist Drew Middleton has been quoting Oman’s Sultan Qaboos calling for increased American intervention in Oman and in neighboring countries to “stop Soviet aggression.”

Since Oman, Dubai and contiguous areas provide several critical “choke-points” where the British could

stop a flow of Gulf oil which amounts to approximately 20 million barrels per day of the world’s oil supply, it is ominous that Middleton, in a June 7 *Times* article datelined Khasab, Oman on the strategically vital Straits of Hormuz, writes that “the Strait of Hormuz is the greatest economic choke point in the world.... The strait could be blocked in a number of ways.... The result would be that the economy of the U.S., which gets an increasing percentage of its oil from the Persian Gulf, would be significantly damaged.”

Nor is it coincidental that the same day’s *New York Times*, reporting on the Schlesinger “Strategic Petroleum Reserve,” quotes Energy Department Deputy Secretary saying that the Reserve “is intended to be used in case of a severe petroleum interruption as defined by the President. That would be something like a total loss of oil imports from the Middle East.”

A fourth option that can be used to provoke an oil shutdown depends on keeping Iran in a state of worse

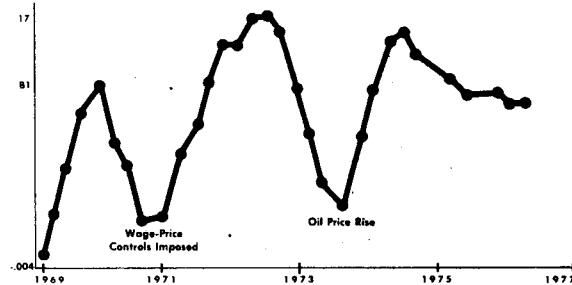
clobbered, and badly, by the latest round of price hikes.

Using the increasingly respected Riemannian Economic Model developed under the direction of U.S. Labor Party Chairman Lyndon H. LaRouche, Jr., *Executive Intelligence Review* is preparing an analysis of the 1979 oil hoax, to appear shortly, whose preliminary considerations indicate that the impact of the 1979 hoax will be every bit as severe as in the aftermath of the 1973-74 round of prices (see graph).

The basic consideration: Oil price increases cannot be represented simply as a projection of GNP. As everyone knows—or should know—an oil price increase has a *multiplier effect*, forcing factory shutdowns, spiralling inflation, cuts in the export market (because the Third World cannot afford to import capital goods due to their increased bill for oil, and so forth).

Taking an extremely conservative estimate of a 1979 increase in the U.S. oil bill of 70 percent or \$52.5 billion, based on \$16.00 OPEC and domestic oil prices, and comparing it to the \$27.3 1973-4 increase, one can see that the magnitude of the increase is nearly twice the size that in 1973-74. But *the economy has not doubled*—not GNP, and even less so the industrial sector. Therefore, the effects of this crunch will be for worse. The \$52.5 billion is larger than total U.S. industrial profits when the latter are deflated and corrected for capital replacement costs.

### Oil hoax—the consequences could be economic collapse



The present shortage of oil and gas—and the concomitant rise in price—contrived by Energy Secretary James Schlesinger could have a devastating impact on the U.S. economy. That is the conclusion indicated by the Riemannian model for economic analysis and forecasting developed for the *Executive Intelligence Review*.

The accompanying graph summarizes the results produced by the model from an historical analysis of the U.S. economy through the period of the 1973-1974 oil price hike. What the researchers found was that the ratio of available reinvestable profit ( $S'$ ) to the sum of constant capital ( $C$ ) needed to maintain plant and equipment and variable capital ( $V$ ) needed to maintain the labor force dropped dramatically in 1973-74. This ratio,  $S'/C+V$ , is determined by the model as the most sensitive indicator of the potential for economic growth.

and worse internal chaos and anarchy. At a certain point, as outlined by British Tory journalist Robert Moss June 4, this anarchy could expedite a move by "disciplined commandos" working with Egypt and Israel to seize power in Teheran—what would amount to a "Pinochet" coup linked into the general militarization of the region. This Moss policy is tied to aggravating the chaos in oil-rich Khuzistan, or Arabistan, triggering possible regional crises embroiling several Arab oil-producing countries while enable the British to build a "Reichstag fire" climate around a supposed "Communist" interruption of oil supplies to the U.S.

#### **"Recolonization"**

The U.S. NSC's strategy around the Gulf was analyzed June 3 in a *Washington Post* op-ed entitled, "A Carter Doctrine for Mideast Oil?" Post reporter Jim Hoagland identified NSC chief Zbigniew Brzezinski as the author of a policy for the Administration to play a more "assertive" role in the Gulf area, including a "more direct" U.S. military doctrine, now that the so-called "Nixon Doctrine" of relying on such policing surrogates as Iran have collapsed.

On the same day as Hoagland's piece, the London *Sunday Telegraph*, Tory propagandist and psychological warfare specialist Peregrine Worsthorpe laid out the Tory marching orders for the Carter administration in terms of a renewal of 19th century colonialism and gunboat diplomacy (see below).

Worsthorpe's piece was followed by a *Financial Times* of London feature, "Some Clouds Gathering over the Gulf," which concluded by affirming:

"The need now is for a new balance in the relationship between the West and its natural allies in the Middle East which gives the Gulf stability and the West sufficient oil. It involves, among other things, a reassessment of U.S. Middle East policy, ... and a Gulf Security pact."

#### **Battle for Iran**

Whether or not the gunboat diplomacy policy becomes operational depends in large part on a resolution of the chaotic situation in Iran.

As outlined by Moss and other *Daily Telegraph* theorists, the British are counting on the disintegration of Iran into mayhem to create the precondition for military intervention. This depends on pitting various of the country's religious mullahs, or ayatollahs, against each other, the mullahs against the Left, various "autonomy"-oriented separatist movements against the central government, and so on.

The economic collapse being *consciously engineered* by the feudalist clique around the maniacal Ayatollah Khomeini is anticipated to drive Iran further into chaos. The London *Financial Times* reported June 4 that Iran has shelved \$75 billion in civil and defense

contracts and that the country is becoming an "industrial cemetery."

According to informed Iranian sources, "unemployment is becoming near universal" in many cities and villages. This is caused, one source reported, by the fact that "the leading ayatollahs of the country are pocketing the oil revenues—which are actually higher than under the Shah's regime because of the rise in oil prices—in an unprecedented outbreak of corruption. The ayatollahs are acting like a bunch of feuding petty mafioso chiefs," he added.

#### **Confrontation**

Fueling the mood of confrontation, Khomeini yesterday blasted all "enemies of Islam" as "worse than the Shah," and called for repression of these forces. Khomeini has also demanded heavy-handed clamp-downs against protesting groups in oil-rich Khuzistan, creating preconditions for drawing neighboring Arab regimes into war with Iran in support of Iran's Arab population.

Khomeini's provocations have been so outrageous that the Iranian republican movement has been able to gain increased support throughout the country. The republican forces are organized in the National Democratic Front party of Hedayatollah Matine-Daftary, a grandson of Iran's 1950s nationalist leader Mohammed Mossadegh. The NDF is closely allied to the heads of Iran's National Oil Company (NIOC), whose Board of Directors resigned this week in solidarity with NIOC head Hassan Nazih. Nazih had come under fire from the Dark Age mullahs as a "traitor" for his blistering attacks in the past days on Khomeini's "dictatorship."

The key problem the republican parties face is that in order to build up support, they have made a series of Byzantine deals with anti-Khomeini ayatollahs which now may prove difficult to abrogate. According to a source close to Matine-Daftary, "the republicans have not effectively tried to build support from *outside* their cause. Without that, and without support for them from outside, their situation is not very good at all."

### **An Israeli-backed coup in Iran?**

*The following are excerpts from the June 4 Daily Telegraph of London column by British Tory intelligence coordinator Robert Moss. Following elaboration of his scenario for an Egyptian-Israeli backed coup in Iran, Moss concluded by analyzing the many splits internally in Iran which create greater opportunities for chaos and raising the spectre of a "PLO-KGB" plot to overthrow Khomeini, which evolves from twenty years of ostensible*

close relations between top levels of the KGB and PLO chief Arafat.

"It would only take 1,000 disciplined commandos to take back Teheran."

The man speaking is one of the leaders of an underground resistance movement in Iran who recently escaped from Ayatollah Khomeini's revolutionary tribunals and is now hiding in a European capital.

He asked me not to identify him by name, since he still has family inside Iran. So I will refer to him simply as "Ali."

Ali claims to speak for a movement composed of surviving elements of the Imperial Guard, the Para-commandos and other pro-Shah loyalists who are waiting for the right time to stage an armed uprising against the present authorities in Iran...

They believe, according to Ali, that the deep rift that has now opened up between the coalition of forces that briefly united to depose the Shah has created an opportunity for pro-Western elements to hit back... "The Revolution is beginning to devour itself. Even Khomeini is worried that his Leftist friends, with the aid of the Palestinians, are plotting to remove him and install an openly Marxist regime."

Above all, according to Ali, the opposition forces in Iran can now count on greater outside support...

President Sadat's recent offer of a permanent exile to the Shah ... pointed to a deeper Egyptian commitment.

There is now a sizable colony of former Iranian army officers in Egypt, and they maintain regular contact with some of the commanders of the (much-reduced) Iranian Armed Forces.

Western intelligence sources report that the Egyptians have offered to provide asylum and generous pensions to Iran's military commanders if they attempt a coup against Khomeini and fail—providing only that they try...

At the same time, the Israelis have a key role to play. Because of the intimate relationship maintained in the past between the Iranian and Israeli defense and intelligence establishments, the Israelis know the local situation like the back of their hand. ... The Israelis can only gain by assisting the opposition to the revolutionary regime today.

## Peregrine Worsthorne on gunboat diplomacy in the Middle East

Daily Telegraph columnist *Peregrine Worsthorne* argued in a June 3 article that the world is headed for a return of 19th-century colonialism and gunboat diplomacy. Following are excerpts:

Western public opinion is beginning to undergo what is called a swing to the Right. Not only has there been the return of a tough-minded Tory Government in Britain, followed by the same result in Canada... but there is now talk of Governor Reagan, the arch-reactionary, standing a very good chance of becoming the next American President, and of Franz Joseph Strauss, the bugbear of the Left, becoming the next German Chancellor...

What has not yet been considered is the possibility that this swing to the Right could reflect a comparable hardening of popular attitudes toward foreign affairs. ... Might there not be [a] return to 19th-century ideas about diplomatic management in favour of imperialism, gunboat diplomacy and Realpolitik? ... Might not Western public opinion start throwing off the ... inhibiting moral shackles in respect of conduct overseas? ...

Could not a perfectly reasonable case be made for re-colonisation of an area in which the West has such an overwhelmingly vital interest [as the Middle East oil-producing area]?

In other words, if the West decided, for example, to reoccupy the Persian Gulf, or set up a base in Saudi Arabia, there would be no popular outcry, no anti-colonialist sense of outrage. Prudent Westerners might hold their breath; but, unlike at the time of Suez in 1956, they would no longer feel compelled to search their souls...

Perhaps the 19th-century imperialists—no less than the 19th-century economists—had a point after all...

All sorts of intriguing interventionist scenarios begin to look realistic, as soon as the miasma of anti-colonialism is swept aside. ... Freed from the post-Vietnam inhibitions, is it seriously to be supposed that the American public will tolerate dramatic reductions in its standard of living, even mass unemployment, at the hands of some blood-stained, crazed mullah? ...

To those who say that it is impracticable militarily to reoccupy the Persian Gulf, or to introduce bases into Saudi Arabia, the answer must be that it will soon become impracticable politically not to. Where there is a political will, there will shortly be found a military way. The Emperor will be seen to have lots of clothes, once the West decides to open its eyes, as the oil crisis is forcing it to do.