

EXECUTIVE INTELLIGENCE REVIEW

October 16-22, 1979



EUROPE: A superpower for peace

Detente with or without the U.S.?

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Mark Tritsch

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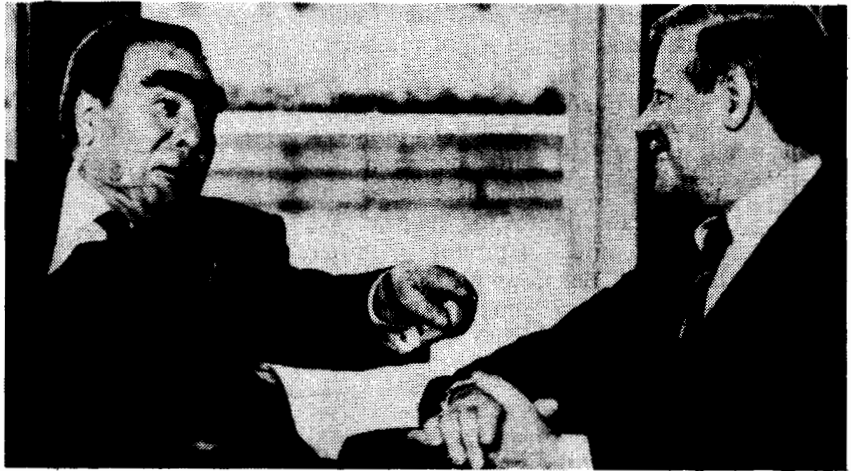
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EXECUTIVE INTELLIGENCE REVIEW



Europe: A superpower for peace

As far as the leading nations of the European continent are concerned, it's detente with the Soviet Union, with or without the United States. Our INTERNATIONAL report this week, "Europe: a superpower for peace," describes in detail the positive moves toward cooperation for economic development and disarmament now underway between the Soviet Union and Western European nations, led by Soviet President Brezhnev's offer of troop withdrawals in Central Europe. Now, all eyes turn to the United States, expecting a credible response. Does the U.S. Senate realize what is at stake, when the Europeans say that NATO faces a "deep political crisis" if SALT II is not ratified? How will this affect European and Anglo-American policy differences over the future of the world economy? Included: Brezhnev's disarmament speech, and American and British reactions.

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IN THIS ISSUE

"The 'long run' is here"

John Maynard Keynes once said that we would all die in the long run. This week's ECONOMICS report tells you why the world's bankers and industrialists are now saying: "The long run is here"—after Fed chairman Paul Volcker's jack-up of U.S. interest rates last week. Is it possible that Volcker wants a depression? He is known to have advocated "controlled disintegration" of industrial economies, but will the results be "uncontrolled" disintegration? Included: "What is Volcker's policy?" and "Volcker's 'little depression'." You also get a complete review of world trade figures for the past two quarters, and a sampling of initial European reactions to the sudden new monetary policy in the U.S.

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Upset for CFR in Japan

Last week's Japanese parliamentary elections did not exactly defeat Prime Minister Ohira, but the ruling Liberal Democratic Party came out with such a greatly reduced majority that someone's head has to fly. The political disposition of Japan is shifting—no friends of United States policy made any electoral gains, and many suffered defeats. Will Ohira survive even another week? Who might force him out? And what will this mean for Japan's policy toward the European Monetary System, toward China and toward the Soviet Union? Our ASIA Report tells you, plus: "The State Department on Cambodia: 'neutrality' on genocide."

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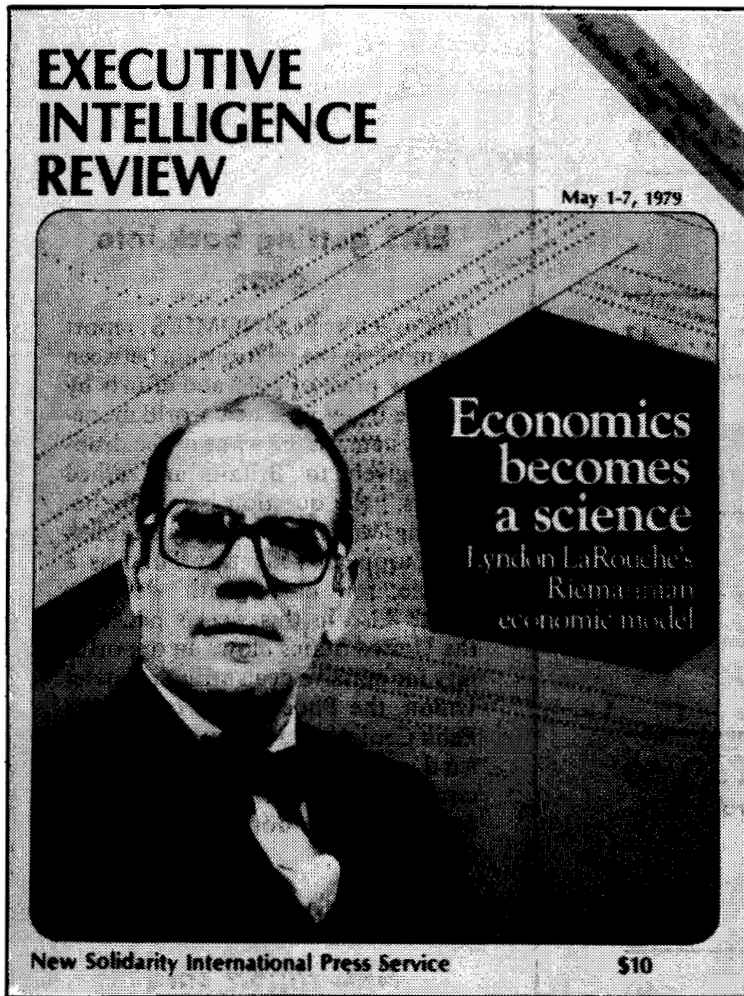
Anti-Drug Coalition takes on 'organized evil'

Seven hundred people gathered in Detroit at the end of last month, and vowed to take on some of the most powerful financial interests and political institutions in the world in an effort to stop international drug traffic. As our U.S. REPORT shows, there's something different going on, without the "social work" of previous anti-drug efforts. These activists, civic leaders, politicians, economists, high school students, businessmen, medical officials, and just concerned citizens, say they're going to "name names"—including some very important people—in a no-holds-barred drive against drugs. Who will they target? What is there strategy? And who are they?

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The Kennedy 'landslide'

COMING: In next week's issue, we will profile the undeclared presidential campaign of U.S. Senator Edward "Ted" Kennedy. The news media have been saying for weeks that a Kennedy "landslide" is in the making. The problem is, after analyzing the traditional Kennedy base, urban machines, and the election results from several city mayoral and other contests, our investigators are still looking for the evidence. A "Kennedy landslide?" Up hill, or down?



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The dollar and the Presidency

Carter's endorsement of the U.S. Federal Reserve Chairman's destructive credit crunch in his Oct. 9 press conference amounted to the signing of his own political death warrant—and the President admitted he was taking the maximum political risk.

The question now is, whether the administration can be forced to take formal dollar support and antideflationary measures if sufficient popular support emerges for another candidate with a solution. This is a question being assiduously studied abroad as well as in the United States, and especially in continental Western Europe.

About ten Republican has-beens are vying for that party's nomination, and in the Democratic party both Kennedy and Brown are challenging Carter. But only three kinds of solutions are being proposed: that of Ted Kennedy, Democratic frontrunner of the New York Council on Foreign Relations; that of John Connally, Republican frontrunner of the New York Council on Foreign Relations; and that of Lyndon LaRouche, who has entered the race for the Democratic Party nomination in 1980 and who is feared and detested by the Council on Foreign Relations.

Connally is notorious in Western Europe for the step he took in 1971, as Nixon's Treasury Secretary, to uncouple the U.S. dollar from gold. Today, according to Connally's controller Rita Hauser, Connally would go much further than Federal Reserve chairman Volcker in ensuring the economy gets the depression it needs.

As for the Ayatollah Kennedy, according to a recent article in West Germany's *Der Spiegel*, he is regarded as a "worse disaster even than Carter."

Kennedy has kept up a steady stream of hot air against the oil com-

panies in the Congressional record, while at the same time collaborating with the Carter administration's Energy Department in providing subsidies to multinational speculators. The infamous \$5 a barrel subsidy to the Rotterdam spot market, that drew the ire of the French government, was Kennedy's initiative.

On the other side, Kennedy has tried to refurbish a "free enterprise" libertarian-conservative image in speeches before such business and Eastern Establishment bodies as the Investment Association of New York. But the bottom line on Kennedy policy is that he is committed to a zero-growth regimen either by "community participation" (his health plan) or by free-for-all among business and workers for the shrinking pie.

LaRouche's entry into the Democratic contest is thus being very carefully evaluated in U.S. and international policymaking circles. LaRouche proposes that the U.S. remonetize gold in consultation with France and West Germany, thus eliminating the credit controls of the IMF and World Bank. Then, ample

credit has to be guaranteed by the government for high-technology investments and exports, especially in the nuclear field, and the dollar must be strengthened by punitively high credit terms for speculation. Third, the U.S. government must distance itself from the IMF and begin negotiations to enter the European Monetary System as the basis for a new world economic order.

At Carter's Oct. 9 press conference, a reporter asked whether the President was going to consider joining Europe's gold-based monetary system efforts as advocated by Democratic candidate LaRouche. Carter ruled that option out. The next day the *New York Times*, which has perhaps even more enemies abroad than in America, printed an editorial calling for a witchhunt against LaRouche with the proviso that the "investigation" not be occupied in any way with LaRouche's policies. As one New York financial insider noted, "I wonder if this has anything to do with question 8 in Carter's press conference?"

—Nora Hamerman

The Week in Brief

South Africa may militarily intervene in Zimbabwe-Rhodesia if the Patriotic Front liberation organizations fail to accept the "take it or leave it" constitutional proposals of Lord Carrington, the British Foreign Secretary, according to a UPI wire that quotes a Johannesburg newspaper. South African Foreign Minister Roelof Botha gave credibility to the report by responding that South Africa is greatly concerned over the latest developments at the London conference on

Rhodesia, where Carrington's proposals for a constitutional transition to majority-rule were firmly rejected by the Patriotic Front. Shortly before the threat of South African invasion appeared in print, Carrington announced he would give the liberation organizations "48 hours" to accept his proposals.

South African officials also have given strong indications they will reject a concessionary proposal by Angola to create a "demilitarized zone"

in Namibia (Southwest Africa). The zone would prevent SWAPO guerrillas from using Angola to enter Namibia, which has been illegally occupied by South Africa.

* * *

Vietnam was justified in invading Cambodia in order to overthrow a Pol Pot regime that was worse than Hitler, stated Ganesh Shukla, founding editor of the Indian newsweekly, New Wave, at a specially convened press conference at the United Nations Oct. 9. The Indian journalist condemned the genocide and destruction wrought in Kampuchea by Pol Pot, and stated that the Chinese regime was directly involved in the butchery.

"I can say without hesitation that the worst crimes of genocide in this century—worse than those of Adolf Hitler—were committed in Kampuchea during the years from April 1975 until January of this year," stated Mr. Shukla, who recently returned from a trip to Kampuchea.

To British and Canadian reporters who asked if he opposed the "principle of non-intervention, the nonuse of force" against Vietnam, he said that while there is "no justification for mindless invasions" of one country by another, "Vietnam had every justification to invade Kampuchea," to prevent Pol Pot's extinction of the entire Khmer race. "I think they should have gone into Kampuchea at least one year earlier. Much of the butchery would have been avoided."

* * *

"We are very close to a 'Black Friday'," Lyndon LaRouche told a group of 40 bankers and executives in

Manchester, New Hampshire, Oct. 9. LaRouche, an independent candidate seeking the Democratic nomination, continued: "Two things happened this past weekend. First, the New York Times slandered me and my associates in the U.S. Labor Party, and secondly, the U.S. financial markets collapsed."

"The two developments are absolutely related," he explained to a luncheon of Manchester's Exchange Club. "I am recognized as the international author of the European Monetary System, the program Europe has put forward to stabilize the International monetary markets and reverse the collapse.... The Europeans intend to put together a new fund, the European Monetary Fund" to finance high-technology development.... "But Carter has been following a wrecking policy ... following the blueprint of the Council on Foreign Relations for controlled disintegration of the U.S. economy." He said that the Federal Reserve chairman Paul Volcker's actions are "designed to kill the U.S. auto industry and kill consumer credit."

* * *

Three presidential candidates in the past week did abrupt about-faces on policy-issues, effectively bringing their campaigns into closer, apparent agreement with candidate Lyndon LaRouche. California Governor Jerry Brown, running in the New Hampshire Democratic primary where LaRouche is the current front-runner, partially reversed himself on the nuclear issue in a speech at Northwestern University in Illinois, calling for both "a new commitment to NASA to increase our technology

capability," and a commitment to "build new nuclear plants, while we phase out the old ones."

In a related shift, Republican hopeful George Bush appeared on "Face the Nation" Oct. 7 to present a tax-cut plan he said was designed to favor "capital formation." Previously, only LaRouche had linked tax policy and productive investment.

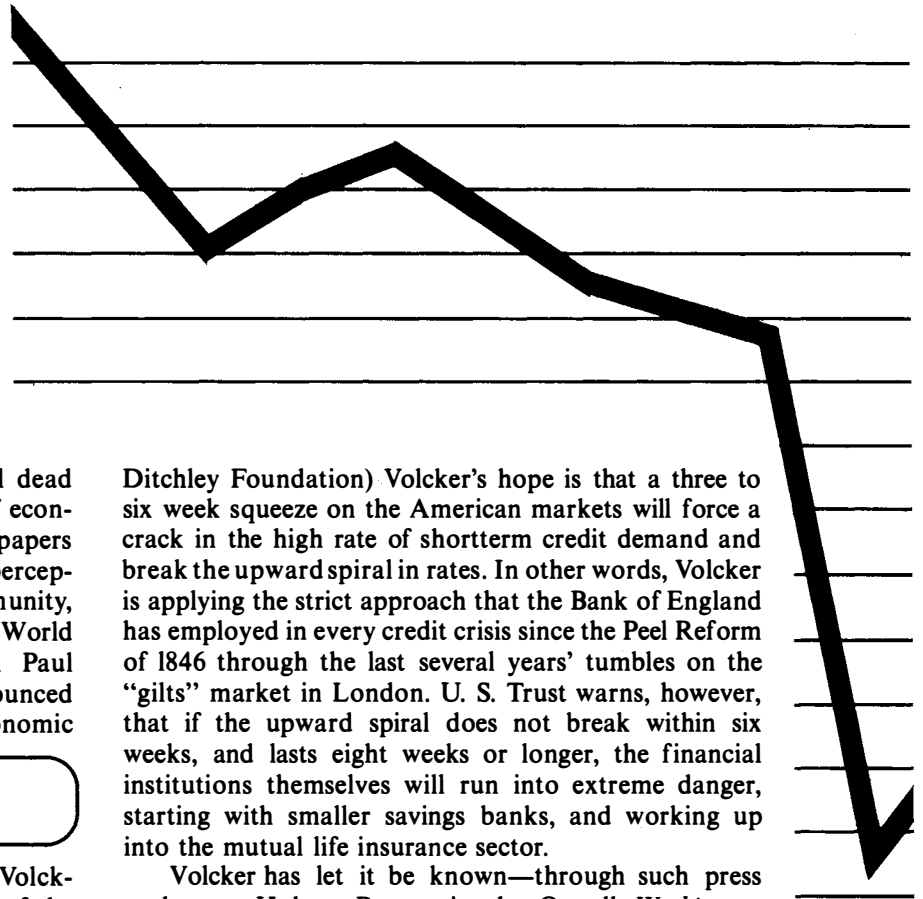
Finally, LaRouche lost the distinction of being the only candidate to advocate an "American System" coalition for industrial development when former California governor Ronald Reagan told a Virginia audience Oct. 8 that the "American System" must be reestablished on the basis of a coalition of "labor, minorities, and industry."

* * *

U.S. military forces should be strengthened to European force-levels in Asia, in order to support China against the Soviet Union, said U.S. Ambassador to Japan, Mike Mansfield in a Tokyo press briefing Oct. 10. Mansfield said that the "Asia-Pacific theatre could become more important" than Western Europe in American defense posture, and that U.S. air and naval forces should be "beefed up and given parity, at least, with those in the Atlantic and Western Europe." Mansfield justified his proposal by citing Soviet troop strength on the Sino-Soviet border.

Some reporters appeared shocked when the former Senator declared that South Korea should be outside the U.S. defense perimeter—the Dean Acheson formula that served as a "green light" to China and is largely credited with precipitating the Korean War.

The 'long run' is here



"The long run in which Keynes said we are all dead appears to have arrived," Dresdener Bank chief economist Kurt Richebaecher told the West German papers this week. Richebaecher's grim joke reflects the perceptions of a majority of the world's economic community, including Wall Street bond traders and Third World financial officials. Federal Reserve Chairman Paul Volcker's three-part credit austerity package announced last Saturday night, has started a worldwide economic

INTERNATIONAL CREDIT

shakeout whose consequences are still not clear. Volcker's motto has been "controlled disintegration" of the world economy. According to sources close to the Fed Chairman, Volcker's risky gameplan involves a controlled collapse of the American economy and a controlled squeeze on the international lending markets.

Will it remain in control? *EIR* correspondents in New York, Chicago, Paris, Frankfurt, Zurich and Mexico City interviewed dozens of bankers, corporate executives, and government officials. The consensus view is, "No." The only dissenters are large commercial banks and academic monetarist economists of the type that predominate at the St. Louis Federal Reserve Bank.

Much depends on whether Volcker holds to his vow and keeps American monetary aggregates under control, with little to the upward movement of interest rates. A frequent comment among analysts is that the White House, fearful of the sharpness of the economic downturn Volcker is likely to provoke, will step in and force some reversal of Volcker's plan in order to give Carter a fighting chance in the 1980 elections.

To a certain extent, that issue has already been decided. According to analysts at U. S. Trust Company, the New York financial house closest to the Fed Chairman's views (through mutual participation in the elite

Ditchley Foundation) Volcker's hope is that a three to six week squeeze on the American markets will force a crack in the high rate of shortterm credit demand and break the upward spiral in rates. In other words, Volcker is applying the strict approach that the Bank of England has employed in every credit crisis since the Peel Reform of 1846 through the last several years' tumbles on the "gilts" market in London. U. S. Trust warns, however, that if the upward spiral does not break within six weeks, and lasts eight weeks or longer, the financial institutions themselves will run into extreme danger, starting with smaller savings banks, and working up into the mutual life insurance sector.

Volcker has let it be known—through such press outlets as Hobart Rowen in the Oct. 11 *Washington Post*—that "additional austerity measures" are in preparation should the game-plan appear to flag off. According to corporate and banking sources, the Fed has already passed out word that informal but tough "voluntary credit controls" will be put into effect throughout the commercial banking sector sometime during the week of Oct. 14, once the markets settle down (assuming that they do settle down). In effect, banks will be asked to do what Treasury Secretary Miller and Chairman Volcker have already alluded to in public addresses, namely to restrict credit extensions to "domestic economic purposes." According to bankers, that means a sharp cutback in consumer loans; reduction of the activity of the mortgage market far more sharply than the 15 percent dropoff from current levels projected by Federal Home Loan Bank Board Chairman Jay Janis in an Oct. 10 speech; a major cutback in loans to the developing sector; and a reduction in lending for so-called speculative purposes, e.g. tender offers. In practice, this means that the lower 500 American corporations and troubled first-tier companies like Chrysler will take it on the chin.

Volcker is gambling that a significant increase in

unemployment, to around the 9 percent mark reached during the 1974 to 1975 downturn, will be sufficient to choke off short-term credit demand. There are a dozen reasons why this gamble has an icicle's chance in hell of paying off. But Volcker's big selling point is not money-market logic. The comment correspondents heard most is that Volcker represents the only functioning political institution in the United States. With the White House held in contempt by most of the country, and Congress deadlocked over petty issues, corporations are looking for someone to deal with. The commercial banks many of them locked into fixed-interest loans and vulnerable fixed-income securities portfolios—are backing a plan that will hurt them badly because they have no-one to deal with outside of the redoubtable Mr. Volcker.

According to bankers, the most obnoxious elements (from their standpoint) of the Volcker package will be smoothed out. For example, Chase Manhattan President Willard Butcher warned that the 8 percent "special reserve" on excess borrowed funds (the so-called managed liabilities) might disadvantage American banks in favor of foreign banks, who still might be able to book loans from their foreign head offices in dollars to American-domiciled corporations. However, the Fed has given assurances that the 15 to 20 percent withholding tax on interest paid to foreigners will prevent the foreign banks from opening a gate into the U. S. They have also been assured that there will not be much difficulty meeting short-term credit requirements of their prime-quality clients.

What about demand?

Can Volcker deliver? The demand for short-term credit could explode at virtually any moment. The most important interest rate in the dollar sector, the 6-month Eurodollar deposit rate, rose to almost 15 percent on Oct. 11, one of the many all-time records scored this past week. Corporations pushed off the bond market, which has fallen a staggering four and one-half points (or \$45 on a \$1,000 face value security) so far this week, will have to rely on the short-term markets. The basic liquidity of the consumer and housing sectors, the ones that the Fed proposes to toss overboard, is not strong; consumers have been compensating for post-tax and post-inflation real income losses by borrowing to cover current expenses. The level of predictable defaults will be large. During the past recession, it was not at all clear whether the commercial banks would have the capital base, following the predictable shakeout, to finance a recovery. Now it is even less certain.

Many analysts are dead sure that Volcker's concern is less the American economy than a counterattack against the monetary plans of Western Europe, which became a political issue in the American election campaign this week. "Remember that the Eurodollar market is a two-bit affair compared with the American market," said a partner of one of New York's most

prestigious investment firms. "All of the West German banks, the ones that have been booking dollar loans like crazy during the last several months, depend on dollar reserves. Volcker is putting the international markets under control." Another banker, A. and S. Bleichroeder's Senior Vice President Erwin Shubert, was more blunt. "Volcker's playing hanky-panky with the Europeans and the South Africans," Shubert said in an interview, referring to American opposition to the progressive remonetization of gold through the European Monetary System and allied arrangements. "The United States economy is going to blow out. What the Fed is doing is terrible." Shubert advocates the mobilization of America's gold stock of 65,000 ounces, worth almost \$127 billion at current market prices, to back up the credit of the United States government. Under a plan Shubert submitted to Chairman Volcker, the United States government would offer bonds convertible into physical gold.

Other American economists favor concessions to Europe's gold remonetization efforts, including Citibank's Harold Van B. Cleveland, who is quietly lobbying for the establishment of Federal Reserve gold swaps in the context of Europe's gold plans. There is also a less pleasant variant of this approach under discussion by some of John Connally's campaign advisors, including Brookings Institution affiliate Rita Hauser. Hauser is telling corporate executives privately that Carter will throw the United States into a depression, leading to the former Texas Governor's election. After this, she says, Connally will bring the United States into a gold system.

Will Europe act?

However, it is likely that Western Europe will preempt discussion of these matters by taking unilateral action. At the present, Europe has not fully digested the impact of Volcker's actions. The French media, including *Le Monde* and *Le Figaro*, have roundly denounced the Federal Reserve for risking a world recession and major bankruptcies, in the words of a front-page *Le Figaro* editorial Oct. 10. According to a French business weekly, *Lettre de l'Expansion*, French prime minister Raymond Barre proposed the creation of an official gold pool as a means of dealing with the crisis. West Germans, by instinct sympathetic to the monetary austerity approach, agree for the most part with Deutsche Bank Chief Wilfrid Guth's statement Oct. 9 that "the West German tradition shows that recession is a good way to deal with inflation." However, as the investment banker cited above pointed out, the West Germans' own banking reserves are on the line.

Although initial West German response has been positive, the real moment of truth will occur when West German bankers survey their loan portfolios with the developing sector. This is perhaps the most dangerous feature of the entire Volcker package. This year, by the

Carter: no need to stabilize dollar

At President Carter's news conference Oct. 9, Executive Intelligence Review's Washington, D.C. correspondent Susan Kokinda queried the President on his administration's monetary policy:

EIR: Mr. President, further on the Fed's tight money policies, figures such as the West German Finance Minister and Democratic Party presidential candidate Mr. LaRouche have charged that this is leading us rapidly towards the crash of '79. Will you move to stabilize the dollar and the economy by collaborating with Europe on their move to remonetize gold, as LaRouche and others have suggested?

President Carter: I doubt that that's in prospect, certainly not for this year. We do cooperate with allies and friends and trade partners in order to stabilize the worldwide monetary system including, at times, the interrelationship between currencies from one country and another and sometimes the basic metals.

I don't see any threat to the well-being of any American because of a rapidly increasing price of gold—except those who have sold early or bought late. But as far as the average citizen's concerned, the price of gold—whether it's \$200 an ounce or \$400—has very little impact.

Recently, the Federal Reserve Board has decided to raise interest rates and I think that—and take other steps concerning the Reserve's supply of money to be kept on hand by banks. This has resulted in a strengthening of the dollar—which had already begun to strengthen. And I believe that it's well within the bounds of management—it's stable.

I had noticed an analysis that showed that in the last year the price of the dollar, as compared to currencies of all our trade partners has increased substantially among the OPEC nations and their trade partners. The value of the dollar, even before we'd made the recent move, had increased 8 percent over the last year.

So I believe the dollar is stable. I believe the world economy is stable. And I see no prospect of shifting to a rigid price of gold and a gold standard.

International Monetary Fund's estimate, the Third World will suffer a \$43 billion balance of payments deficit; private estimates are closer to \$50 billion. At \$200 billion, the private debt of the developing sector now carries an annual \$30 billion interest charge, given 15 percent six-month Eurodollar rates. At 20 percent, the annual carrying charge rises to \$40 billion. This is the volume of new loans that the commercial banks will have to extend to the developing countries merely in order to maintain the loans on their books. The last rise in oil prices has already thrown many third world economies into chaos. There is apparently a further rise in the price oil in the works, possibly as drastic as the first. That will add further to the burden.

'Uncontrolled disintegration'

The same West German banks whom Volcker plans to squeeze out have been disproportionately carrying the burden of financing the Third World. The lower tier of these countries is on the verge of economic holocaust (see TRADE). *EIR's* special report of last July on the consequences of the oil prices increase found, on the assumption that the Fed would respond with monetary stringency, that the economies of many of these countries would cease to exist in meaningful form by the end of 1980—and that several advanced sector countries would follow by the end of 1981.

The London *Guardian* warned Oct. 9, in a column by Hamish McRae, that the current monetary environment might trigger a wave of Third World debt defaults.

That looks increasingly likely; the International Monetary Fund has no lendable resources in proportion to the need, and the private sector cannot keep up its previous rate of lending, much less increase it as required, under Volcker's program. Already, according to the London Financial Times Oct. 9, private banks are abandoning Turkey, something of a test case for willingness to lend to Third World countries.

The central bank governor of Mexico warned Oct. 10 that Volcker's plan would decrease the exports of the developing sector and potentially lead to serious economic consequences. What is most dangerous for the third world in the short-run, however, is not the absolute level of import demand from the advanced-sector countries, but the uncontrollability of short-term interest rates under the Volcker program.

Volcker has unleashed consequences which would better be described as *uncontrollable* disintegration. According to Democratic Presidential candidate Lyndon H. LaRouche, Jr., "Volcker will only push the Europeans to act on gold faster." The dollar is now functionally unusable as an international lending currency (see FOREIGN EXCHANGE). The fall of the dollar despite the extraordinary interest rates available indicates that the currency has, indeed, become an "exotic currency like the Brazilian cruzeiro," as one senior Swiss money dealer put it.

Europe might well be forced to activate some of its contingency plans well in advance of plans. The final alternative is to make the gold-backed European Cur-

rency Unit (ECU) an actual currency, issued against gold backing, to assume monetary functions left vacant by the dollar. A simpler possibility would involve a European banking consortium issuing securities in gold denomination at an extremely low interest rate. Under present circumstances the European banks could assume as many cheap liabilities as they wanted. This plan would depend on action by European central banks to stabilize the gold price within a certain range of fluctuation—but the Swiss monetary authorities deny Europe's intention to do this. At this point, any bank that failed to join in this procedure would immediately go bankrupt, and the world would be back on a sort of gold exchange standard. In either case, Europe's will and ability to turn Volcker's offensive back against him should not be underrated.

—David Goldman

What is Volcker's policy

On November 9, 1978, Paul Volcker delivered the Fred Hirsch Memorial Lecture at Warwick University in England where he outlined what in less than a year has become the Federal Reserve's monetary policy. Fred Hirsch, a New York Council on Foreign Relations economist, authored the Council's Project 1980 economic sections before his recent death. Volcker's speech, excerpted below, was published in the January 1979 issue of the London monthly The Banker.

... I was tempted to take as my text today one of Fred Hirsch's last dicta: "A controlled disintegration in the world economy is a legitimate object for the 1980s. ..." The phrase captures what seems to me the prevailing attitudes and practices of most governments in this decade, as they struggle with two central issues that bedevil so much of our negotiations and our actions, not just with respect to money, but over the full range of international economics...

... Let us be aware of the difficulty of controlling disintegration, once fairly started...

I do not suggest that we stand on a knife's edge forced to choose between integration and autarchy. But I would much rather take as my rallying for necessary negotiations, as an ideal from which to measure progress, the challenge of "managing integration" rather than disintegration...

... The happy days of Bretton Woods, often viewed today with nostalgia, were a special case, workable

The reaction in Europe

French press reaction to the Federal Reserve hike of interest rates to 14.5 percent are exemplified by Le Figaro, which headlined: "The West threatened with a recession" in its Oct. 10 edition. The article, quoted below, warns of the possibility of an international interest rate "war."

International financial circles were expecting, at the same time dreading, such a measure: it is the logical consequence of the plan of anti-inflation and defense of the dollar announced last Saturday by American monetary authorities. Like a spot of oil, it will further exacerbate the war of interest rates between industrialized countries. At the end of the road, a major risk for the United States and the Western countries: a recession. Already the experts don't hesitate in predicting bankruptcies. And not only among the "small."

... At first glance, one could interpret the new threshold crossed in the inexorable increase of American interest rates as the continuation of a movement begun months ago. But that would be to misjudge its real importance. It is in fact a new monetary policy in America. Or rather an attempt to implement a real monetarist policy...

In the short term, the effects on Europe will first concern interest rates. In a first stage, we can hope

because of a particular economic and political setting...

The system held together for a decade and more after the first signs of weakness, despite the resistance to more fundamental adjustment measures...

'Inherent contradictions'

But in the end, the inherent contradictions in the system were too great. With the benefit of hindsight, it would seem that an erosion of the United States competitive position was implicit in the postwar arrangements. First Europe and later—with even greater momentum—Japan brought its industrial capacity and efficiency close to United States standards. It took some 20 years, but eventually the United States payments position was irreparably undermined...

Finally in August 1971, the United States did move decisively to promote the adjustments that seemed

that the Germans will not react by increasing their own rates. They would want to avoid the accusation of feeding a world war of interest rates....

In France, on the other hand, the monetary authorities will undoubtedly not be able to allow the differential between interest rates on the other side of the Atlantic and our own to increase. ... If the German rates do not increase in the immediate period, we can hope to avoid a real escalaton. If they go up, the necessity of defending the Franc-Deutschmark parity will force French monetary authorities to again up the cost of renting money, with all the dangers that this would entail.

"But the most preoccupying consequences are more long term. If a serious recession occurred in America it would spare no one, and least of all the European countries. The danger is clear. But if we take seriously the threat of world inflation ... we must know that we can't bring it down without taking risks.

From an interview with an official of the West German Bundesbank:

Personally I think it's a step in the right direction. Inflation must be cut or there will be no dollar stability. The third world? Would it be any better for them if the inflation went on? We must have real interest rate levels above inflation. It's the relation that matters, nothing else. Look at the German example. When we had 8 percent inflation, we had to put up our interest rates above that, and it worked.

From an interview with a West German banking official:

We see Volcker as the man who is doing what the Germans have been telling the U.S. to do, though we doubt that the crunch will last—it being an election year. ... The new minimum reserve requirements will put U.S. banks at a competitive disadvantage and prevent U.S. banks from dealing out all those worthless dollars in the world. ... Making money scarce is the most effective way to cure inflation.

From an interview with a Swiss banking official:

We're very worried about the U.S. situation. Volcker took drastic steps, and he had to. Now we all have to fight together to support the U.S. currency authorities.

Romero Kolbeck, head of the Mexican Central Bank, as reported in the Mexican press Oct. 10:

It is not very encouraging that the advanced countries have decided to grow less next year, because as long as those countries do not transfer resources, at least seven percent of their gross national product, resources for the developing sector countries will be limited. (Kolbeck further explained that Mexico's foreign debt, which is denominated in European currencies and Japanese yen, has increased by 3 to 4 percent as a result of the fluctuations of the dollar. The Mexican peso is pegged to the dollar.)

necessary....

... We have had plain enough warning of the fact that international money, any more than domestic, will not manage itself. It will deliver neither the promised autonomy nor integration if we fail to deal with some of those issues that were unresolved in earlier efforts at more structured reform....

As Fred Hirsch emphasized some years ago, the transition toward a European system could pose difficult problems. I hope we will all be alert to dealing with the complications that the transitional period could present for international cooperation on a wider scale, to protecting the legitimate role of the IMF, and to the implications of decisions within Europe for the monetary system as a whole....

All of this raises questions of governance—if the system is to be managed, who will do it and how. The obvious institutional focus is the IMF, and it plainly

has a full plate of work ahead. I have long felt that, if that work was to proceed with full effectiveness, the effort of the international bureaucracy—however able—and it is very able—needs to be reinforced by more active regular participation by politically responsible officials of member governments. That is, of course, the rationale of the council authorized by the new articles. To a degree, the function has been performed on an interim basis by the advisory council. But it would seem to me useful, more than symbolically, for that body to assume now full legitimacy by transforming itself formally into the council, and renewing the sense of commitment to develop its surveillance function (along with) more or less continuous consultation among the "trilateral" countries: Japan, Europe, and the United States. And the consultation must extend to the highest level. The recent practice of "economic summitry" points that way.

Squeezing into a British corset

For years U.S. businessmen have looked on with horror at the perpetual state of crisis on the British financial markets, where credit rationing and a high interest rate floor have permanently crowded industrial corporations out of the capital markets and sent interest rates on the Exchequer's "gilts" through the stratosphere. Now, following Federal Reserve chairman Volcker's recent adoption of the British "corset" approach to monetary

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policy, businessmen in the U.S. can look forward to the same conditions.

The Financial Times of London was among the first to applaud the Fed's new credit crunch package as "a considerable revolution in U.S. monetary policy," a needed change borrowed from the "British experience." In its lead editorial Oct. 8, the newspaper specifically hailed the imposition of marginal reserve requirements on new "managed liabilities" (above a September base period) as an adoption of the British "corset" controls. According to its press release of Oct. 7, the Federal Reserve will now impose eight percent reserve requirements on new Eurodollar borrowings by U.S. commercial banks, the banks' repurchase agreements with the corporate sector, and other liabilities with which U.S. commercial banks have been financing domestic credit expansion in recent months. The Fed's new emphasis on corseting the growth of the monetary aggregates and monetary base, no matter how high inflation goes, is also standard Bank of England practice.

The U.S. adoption of this policy means a precipitous constriction of short-term credit availability, escalation of short and long-term interest rates, and a self-feeding crisis of the lending institutions themselves.

Thomas Synnott of U.S. Trust said in an interview last week that the Fed is aiming for a decisive credit crunch three to six months hence. Short-term borrowing rates—which are already in the 15 to 18 percent range for non-prime corporate customers—will continue to escalate for several weeks until they choke off credit demand. Interest rates, under the scenario, will then subside.

According to Synnott, the Fed's new strategy is to constrict the growth of the monetary base—bank reserves and currency in circulation—which is the basic measure of credit supplied to the economy through the banking system by the Federal Reserve. Over the last three months the monetary base has been growing at a 12 percent annual rate. "The Fed will bring that growth down to the two to three percent range—preferably zero—between now and the end of the year," Synnott believes. This would balance out to a six percent growth rate of the monetary base for the entirety of 1979.

A contraction of the monetary base that severe means an even sharper contraction of short-term loan expansion—a collapse from the current 20 percent annual rate of expansion down to a five percent annual rate for the rest of the year. In the process, all but the banks' regular prime customers face a credit cutoff. The imposition of marginal reserve requirements on the banks' incremental Eurodollar borrowings and other deposits which have been the principal source of new liquidity for the U.S. economy recently will make the banks think twice about making "marginal" loans.

If interest rates do not begin to ease within the three to six week time frame, U.S. Trust's Synnott and other analysts believe the savings bank industry will be in deep trouble.

The savings banks and savings and loan institutions are already caught in a tightening squeeze between the interest earned on their assets—principally fixed-rate mortgage loans—and paid out on their high cost deposits. The president of a major New York City savings bank told EIR last week that his bank earns only an average of 8.08 percent on its assets. Fifty percent of its liabilities are high cost time deposits, a sizeable proportion of which are the new money market certificates, which now carry an interest rate in excess of 11 percent. "Sure our earnings are being squeezed. But if we were to stop paying those rates, we'd lose the money and be forced to retrench our lending activities even further. Some of our counterparts are running negative earnings. I foresee a period of heavy merger activity in the savings bank industry." He added that most of the money coming into money market certificates is coming out of 5 percent savings deposits.

Abraham Serfaty, economist for the Savings Bank Association of New York State, foresees an even bleaker period ahead for the savings banks and thrift institutions. Mr. Serfaty stated that he believes the intended effect of the Fed's new credit restraint package is to accelerate disintermediation—the flight of money out of savings deposits for high-yielding money market instruments like Treasury securities and the money market certificates now issued by the savings banks themselves. "Part of the point of the package is to slow down the housing market." He predicts that housing starts will fall to 1.5 million units for the year.

Most analysts believe that the savings bank industry as a whole is liquid enough to meet anticipated outflows through the sale of short-term assets. The savings banks in particular—which have greater flexibility than the thrifts in where they can invest—built up an ample cushioning of Treasuries, Federal funds, commercial banks certificates of deposit, and other short-term assets as a hedge against eventualities like the present.

The pressure on savings banks to liquidate these assets combined with equal pressure on commercial banks to liquidate treasuries and bonds to satisfy loan demand—and forestall bankruptcies of their debtors—will feed the interest rate spiral and intensify the problems currently facing these lending institutions. The liquidation of Treasury securities and bonds intersects an exceptionally heavy fourth quarter borrowing by the U.S. Treasury and hefty pent up demand for long-term funds by corporate treasurers. The prospect of heightened competition for long-term funds between the Treasury and corporations contributed to the 400 basis points plunge in the corporate bond prices in the three banking days following Volcker's momentous announcement Oct. 6.

The Treasury, which bet on rates peaking by the fourth quarter, must finance some \$15 billion in new cash needs by the end of the year, in addition to refunding more than \$5 billion in maturing securities.

Corporate treasurers who have been taking on short-term debt at near record amounts since the beginning of the year—expecting that interest rates would ease later in the year—are now under great pressure to shift their borrowing to the long-term market. However, look at the experience of top-rated IBM Corp. last week.

As was well publicized, IBM's \$1 billion financing ended with the biggest underwriting loss in history last week high as \$30 million was suffered by underwriters who got stuck holding unsold securities when the bond market went into its slide.

One inside source revealed that the loss was even more of a disaster than the public realized. The much favored IBM issue, which had reportedly sold \$800 million of the \$1 billion offered by early last week, had only sold \$500 million. The rest was unloaded by the underwriters through illegal swaps for Treasury securities. The cancellation of this dubious business by a senior partner of one of the leading underwriting firms broke up the syndicate on Oct. 10 and left the bonds selling at 94.5 percent of par.

—Lydia Schulman

Volcker's 'little depression'

Several New York City money center banks told the *Executive Intelligence Review* this week that they and their Fortune 500 industrial borrowers will escape the effects of a credit crunch initiated by the sharp tightening of domestic credit this week by Federal Reserve Board chairman Paul Volcker. "Consumer installment credit and the housing market will be hit by Volcker's move," a Citibank official stated Oct. 10, "but the

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larger-sized companies will not be much affected." He added that "this country can use a strong dose of Volcker's medicine."

A review of U.S. corporate liquidity and sales reported for the first nine months of 1979, however, demonstrates that the force of Volcker's actions will bring down the entire economy, and will not spare the large companies which imagine themselves safely sheltered. In short, the U.S. economy is too interconnected for one section of the economy to collapse without other areas being seriously damaged. Volcker and the New York City banking community's conceit, that they can run, in their own words, "a controlled disintegration of the U.S. economy," is rooted in wishful thinking.

Indeed, the very financial sections that Volcker proposes to triage first, housing and auto credit, are precisely those, as every analyst will admit, which have kept the economy from visibly plunging into collapse for the last 24 months.

A credit crunch will very likely force a repeat of the 1973-'74 U.S. depression, when unemployment rates hit 8.5 percent, industrial production collapsed by more than 10 percent, and inflation continued rising, not falling. The British Broadcasting Corporation, in heated anticipation of a U.S. collapse, nonetheless accurately tagged the huge Oct. 10 panic in the stock market following Volcker's tightening: "The only difference between now and 1929 is that now there are no bodies."

Corporate liquidity is not good

Volcker raised the discount rate to a record post-war high of 12 percent, allegedly "to halt inflation and bank

credit growth." While Volcker claimed that this will not lead to a credit crunch, William Griggs of J. Henry Bank and Trust Co. said Oct. 11, "there is the chance that because so much of the American economy is based on the functioning of credit and borrowing, Volcker's action could be timed incorrectly and the economy will be tipped into depression."

The sectors to be hit hardest by Volcker will be consumer credit-related sectors such as auto and the housing sector. Despite the sharp run-up in consumer credit, auto sales are down between 12 and 15 percent this year from last, and housing starts for 1979 are expected to hit only 1.5 million units, nearly a 25 percent yearly drop.

Yet, the critical area of the economy in the short-run will be the second and third tier U.S. corporation. With the prime rate up to 14½ percent, and the newly imposed 8 percent increase in reserve requirements on certain categories of liabilities adding another 1 percent cost, second tier corporations can expect to pay 16 to 18 percent interest on loans, according to one New York investment house analyst. This will be especially hard on second tier companies because of the sharp rise in their short-term debt.

Total corporate indebtedness is up by 10 percent this year to slightly more than 400 billion dollars, and short-term debt now accounts for almost 6 percent of the total invested capital in an average large company, compared with 5.5 percent just one year ago. (Only a rise in equity offerings kept the ratio from going alarmingly higher.) While the exact figures for this same ratio for second-tier companies don't exist, reliable estimates place this ratio at a staggering upward of 10 percent.

Companies took on this debt in the first half of the year, with the rosy expectation that, with interest rates rising, they would borrow short for long term operating needs, but lock into long-term liabilities this fall, when, it was thought, interest rates would have fallen. But the peak hasn't come yet, and is not expected, according to Schroeder's Briggs, until January of next year or later. The short-term debt has to be rolled over at 16 to 18 percent interest rates, directly gouging profits.

Increasing the middle-tier firms' liquidity problems is the fact that they are being boxed out of the commercial paper and corporate bond markets, where other sources of funds might be available. With BAA or less Standard and Poor's ratings, the middle-tier companies could find no takers for their paper this week, and

won't for several months. A Manufacturers Hanover Trust economist commented this week, "there is no way that bankruptcies among non-Fortune 500 companies can be prevented because of Volcker's actions." The unraveling of Chrysler Corp., which is a special extreme case and normally a Fortune 500 company, exemplifies the potential bankruptcy process.

The middle and lower tier companies are the parts-suppliers, construction companies, etc., that are the foundationstones for the large companies' growth.

More than one danger sign

Corporate illiquidity is only one of several signs. Those who took solace at the temporary drop in the national unemployment rate to 5.8 percent in September had better take a deeper look.

Contract orders for plant and equipment, the key to all capital formation, in inflation-adjusted dollars, fell from the second to third quarter, although precise figures have not been released by the Commerce Department. This category of orders fell a sharp 10 percent from the first to second quarter this year. Manufacturer orders for consumer goods and materials had also been declining since winter.

The overall inventory-to-sales ratio for the U.S. economy is, as many analysts have pointed out, better than the 1974 period. But on the retail sales level, the 12 month percentage change from Sept. 1978 to Sept. 1979 is 8.3 percent in current dollar retail sales, while the 12 month rise in inventories is 11.3 percent, showing a slow, but steady inventory-growth-over-sales of nearly 35 percent.

If retail sales collapse, corporations will have sizeable producer inventories to get rid of. Though smaller as a percentage of retail sales in 1974, the inventories are far larger in actual volume than in 1974. The incentive toward liquidation is that the cost for credit—and therefore, of warehousing the inventories—is much higher now than at the worst point of 1974.

Under these conditions, as the economy begins to unravel following a credit market collapse, there will be no way to cordon off the effect on the large Fortune 500 companies, nor on the large New York money center banks. "Controlled disintegration" will quickly give way to "uncontrolled disintegration," spreading from the second to first tier companies. The New York banks, who bet on being unaffected, will, once again, as in 1929, have bet on a sure thing and lost.

—Richard Freeman

Volcker's initiative can't support dollar

The problem with any attempts to support the U.S. dollar by dramatic interest rate increases and a clamp down on money aggregates—such as Paul Volcker of the U.S. Federal Reserve is now doing—is that such a policy must weaken the dollar.

Although some international analysts have compared Volcker's Oct. 6 "package" to the measures introduced since 1978 by the Swiss Central Bank to keep the Swiss franc in tow with the West German mark, the fatal flaw in drawing any such comparison is that the dollar is the international reserve currency; the impact of Federal Reserve policies will show up in the direction and volume of capital flows between the domestic U.S. and international markets.

A well-placed Swiss financial source (many of whose colleagues are also finding it increasingly difficult to live with the Swiss Central Bank's interest rate/capital controls regime) warned that the dollar will now continue to fall against the West German mark and other European currencies.

Volcker's severe "credit-tightening" measures will force large foreign holders (of U.S. securities) to liquidate held stocks and bonds, he explained. The international gold market will be the safest attraction for these funds. As the gold price rises and dollar securities fall international investors in dollar-denominated paper will become disappointed. As they dump their dollar holdings, the dollar will fall again, forcing the Federal Reserve to push rates up further to fuel the whole rotten cycle.

"If the dollar lends at interest rates of 20 percent, it will be looked at as no better than the Brazilian

cruzeiro," he added. "It will become an exotic currency. No one will want it."

Chaos foreseen for Euromarkets

In response to the record rise in the U.S. prime rate to 14.5 percent, interest rates on the Eurodollar market also took off this week. Three-month certificates of deposit rose 150 basis points between Oct. 6 and 10 to over 15 percent.

There are two immediate impacts this overall interest rate climb will have on Eurodollar lending.

In the short term, it is very likely the West German Central Bank will marginally hike deutschemark interest rates to offset the danger of capital outflows to higher earning Eurodollar paper.

Hovering around a 7.75 percent on short-term funds, West German rates still offer a prime investment because domestic inflation in West Germany is so low. The latest monthly figure for inflation was .1 percent, compared to the U.S. wholesale price inflation at annual 17 percent.

Several European financial journals including France's *Le Figaro* and the London *Financial Times* issued warnings early this week that international "interest rate warfare" could erupt now.

The threat of major interest rate fluctuations in an upward direction raises the prospect of a huge dollar-dumping spree hitting the markets at any time in the near future, as under such conditions, the dollar would have no credibility as a reserve currency.

What Volcker's approach to dollar "support" ignores is that the dollar's international exchange value is primarily based on levels of international dollar lending. For example, in recent months prior to Volcker's move, the dollar's relative stability

around the 1.75 deutschemark level had been based exclusively on the creation this year of the European Monetary System, a currency and central banking stabilization agreement among continental European nations which permitted West German and French banks to continue to issue large volume dollar loans, particularly to Third World borrowers who used them to generate European imports. Without this international activity, there would have been little to stop the dollar from hitting 1.6 marks or far lower.

Now, it will become increasingly difficult for these banks to continue such "stability"-oriented lending, most of which occurs as six-month papers (based on six-month borrowings by the banks) whose rate of return is adjusted after that time to currency Euromarket rates.

If these strongly "prodollar" banks cannot lend, they will never be able to hold the tide against repeated rounds of dumping by "antidollar" banks—particularly British banks—and panicky international speculators.

Full impact in abeyance

As we go to press, the dollar is firm and the markets are quiet. On Oct. 10, the dollar traded for 1.7825 marks (slightly higher than Oct. 9 at 1.7730 markst) and 226 Japanese yen (compared to 225.40 the day before). However, this stability can mostly be attributed to intervention in behalf of the dollar by the West German Central Bank and to the low volume of trading, as international speculators and dealers take a "wait-and-see" attitude.

To date, only the French press among continental Western European financial journals has expressly denounced the Volcker package. While France's *Le Figaro* warned of "intensified dangers of recession" in the U.S. this week, West German bankers and currency traders universally approved of Volcker's package on the grounds that someone had finally taken the bull by the horn and that West Germany also has repeatedly gone through credit-tightening.

—Renée Sigerson

AGRICULTURE

What the Volcker policy will mean

Only the depth and resiliency of the U.S. farm sector precludes it from being the first economic sector to give the lie to Mr. Volcker's recent reassertion of financial and economic lunacy by means of a spectacular blowout. If the Volcker interest-rate hiking operation is pursued for long, that blowout could indeed occur in the farm sector—but first it has to really be "Brazilianized," and that's just what the Volcker policy will do.

Barring the possibility that the Volcker measures succeed in touching off an uncontrollable panic,

sparking a flight of deposits from rural banks—not by any means an unlikely "scenario"—the impact of the hike in the discount rate and related measures announced Oct. 6 on the agricultural credit structure will center on interest rate looting.

The threat of a drying up of funds that would otherwise be associated with this sort of "crunch" has been warded off by the widespread introduction over the past year of money-market Certificates of Deposit among rural commercial banks, an instrument which allows them to compete successfully for money-center funds—providing that they are willing and able to parlay the cost of funds into their loan rate structures.

Now, too, the cost of using the "seasonal borrowing privilege" at the Federal Reserve, another alternative to total dependence on deposit funds which was not only an assured source of funds but one whose cost—the discount rate—traditionally remained fairly steady, has taken a sharp 1 percent jump.

Like the rest of the banking sector

Typically, the farm loan interest rate structure at rural banks has been very steady over long periods of time, with rates running higher than those at large, money-center banks during loose money periods and lower than those at large, money-center banks during tight money periods. During the 1969 and 1973 credit crunches, when short-term prime commercial paper rates, for instance, went from 5.6 to 8.8 percent and from 4.7 to 11.7 percent respectively,

GOLD

Crisis of confidence lifts gold

The crisis of confidence set in motion by Federal Reserve Chairman Paul Volcker's credit crunch package has pushed gold through the ceiling once again. Aggressive bidding at the latest International Monetary Fund gold auction on Oct. 10, where successful bids ranged from \$412.51 to \$420.80 an ounce, could signal further upward moves.

The shut-off of credit availability to productive sectors of the economy has resulted in a generalized collapse of the dollar and of dollar-denomi-

nated securities and a flight into gold—precisely the opposite of what monetarist doctrine had promised. The key question now is whether Western European governments will take this opportunity to salvage the world economy by mobilizing their upvalued gold reserves to finance Third World development projects. Perhaps the most positive indicator was the Oct. 4 editorial in the French financial daily *Les Echos*, which stated that the revaluation of official gold reserves should accomplish three goals: 1) "sterilize," or mop up, idle dollars which have been contributing to worldwide inflation, 2) create a new gold-backed

liquidity to annul "unbearable" Third World debts, and 3) lay the foundations for "a new Bretton Woods," in which gold would play a major role. Most important, *Les Echos* categorically rejected recent American and British proposals that gold remonetization be linked to austerity, stating that any return to the "gold standard such as it functioned before the First World War" was "unthinkable."

In sharp contrast to *Les Echos* commentary, a top spokesman for John Connally's GOP presidential campaign stated that "the U.S. should go through a depression so we can get back onto gold." Also, on Oct. 10, New York's Senator Jacob Javits called on the Carter Treasury to terminate its monthly gold auctions, presumably as part of this "progold" deflationary scheme. Ironically, both Connally and Javits played prominent roles in the decision to unlink the dollar

short-term farm loans typically fluctuated by a mere 1 to ¼ percentage point from 7.4 to 8.4 percent and 8.1 to 9.1 percent respectively.

Data from 1976 to the present, however, shows that with a sharp increase in rates in the fourth quarter of 1978 and the first quarter of 1979, farm loan interest rate increases already rival the total increases recorded for the farm banks during each of the two preceding cycles. And, as the latest Volcker gambit emphasizes, there is no "peak" yet in sight.

A sampling of short-term farm loans in the Ninth District and feeder cattle loans in the Seventh District, showed that the average of most common rates jumped sharply in late 1978. Rates on short-term farm loans in the Ninth District held steady at 9.2 percent from 1976 through the first quarter of 1978, jumping to 9.4 and 9.5 percent in the second and third quarters respectively, and to 10.2 percent in the fourth quarter.

Feeder cattle loan rates in the Seventh District were similarly steady at 8.7 and 8.8 percent through 1977, jumping to 8.9 percent in the first quarter of 1978, and then to 9.1, 9.4, and finally 10.1 percent in successive quarters.

A comparison of interest rates on non-real estate farm loans at large banks (with assets over \$400 million) and at all other banks during the same period, from the first quarter of 1977 through the first quarter of 1979, shows that the large banks reflect changes in money-market rates more quickly, jumping just over a percentage point from 8.3 to 9.4 percent during 1977 and then catapulting 2.4 percent from 9.3 to 11.7 percent in 1978, to land at 12.5 percent in the first quarter of 1979. By contrast, non-real estate rates at rural banks went from 8.9 to 9.0 percent over 1977, to 10 percent by the end of 1978, and hit 10.4 percent in the first quarter of 1979.

Bucking state usury laws

But the price of getting a sure supply of funds, via for instance the new six-month, money-market CD, is that the interest rate trend for rural bank farm loans—80 percent of all farm loans—will increasingly resemble that for the so-called large banks.

While the rate hikes will work their way through the farm credit structure, the process is likely to take some time. In part, it will depend on the extent to which loan demand remains strong or even increases significantly (a prospect which is not inconceivable given the kinds of transportation and other bottlenecks that could snarl what is otherwise an extremely buoyant marketing picture). The rate of increase of new farm loans outstanding—up 19 percent over one year ago—will tend to push rates up across the boards as greater volumes of new funds must be brought into the farm sector.

The Volcker moves will also set the farm credit structure on a virtual collision course with usury laws in many states—a dramatic measure of the "Brazilianization" process of inflationary austerity. Faced with statutory interest rate ceilings, banks will be forced either to cut off funds, or to get the state legislatures to change the laws. In South Dakota, for instance, where the average interest rate for short-term farm loans in April was 9.95 percent, the statutory interest rate ceiling for all agricultural loans is 10 percent. In Wisconsin, the ceiling is 12 percent for all farm loans under \$150,000. In many other states, it seems, the laws are somewhat more restricted in impact.

Finally, the wholesale transfer of speculative borrowing costs to the farm borrower, being given a giant boost by the Volcker moves, will tend to put a wild card in farm production expense sheets. Interest charges already ate up a full 10 percent of farm production expenditures this year, and knowledgeable observers think the Volcker moves could easily push that to 15 percent over the 1979-80 production year.

—Susan Cohen

from gold in August 1971. Meanwhile, European efforts to establish a new gold pool, where the central banks would regulate the market and fix a new official price, appear to have stalled. The Italian daily *Corriere della Sera* reported that formation of a gold pool and dollar support were the two main items under discussion at the IMF meeting last week. In my view, the gold pool is unlikely to succeed in the present crisis-ridden environment unless placed in the context of an aggressive "out front" European and Arab commitment to large-scale investment in the Third World.

—Alice Roth

Who has the gold?

The table entitled "Who Has the Gold?" which appeared in our October 2-8, 1979 issue *underestimated* the

amount of gold reserves held by the European Monetary System member countries. The table did *not* include gold which individual European countries, as part of the EMS, have pooled in the European Monetary Cooperation Fund (FECOM). With gold valued at \$350 an ounce, total EMS gold holdings (both those held by individual countries and those held by FECOM) are worth \$147.48 billion. Country totals should read (in billions of dollars): West Germany - 41.52, France - 35.70, Italy 29.09, Belgium - 14.91, Netherlands - 19.17, and Other EMS (Denmark and Ireland) - 7.09. Updated figures for countries outside the EMS are: U.S. -93.33, Switzerland 29.15, United Kingdom - 8.00, and Japan - 8.39. The world total (including individual country holdings and holdings of the IMF, FECOM and other official institutions) is 396.55 billion. Thus, the EMS controls well over one-third of the world's monetary gold.

World trade figures show problems

At first glance, world trade figures for 1978 and the first half of 1979 appear as a bright spot among otherwise ominous economic developments. World trade for 1978 was up 16 percent in value, and 6 percent in volume (a closer representation of the increase in trade, after correction for inflation). But available January-August 1979 advanced-sector trade figures admittedly already show a less rosy picture.

Even before Volcker's recent moves, the world trade picture had been showing danger signals. Imports for Western Europe and especially Japan have been increasing faster than the increase of exports—an intolerable situation in a world in which the principal vector of development should take the form of an export surplus from the advanced sector to the underdeveloped sector.

Secondly, even the modest 1978 increase in global trade over the previous year is well below half the trade growth rates characteristic of the period before the 1973-1974 oil crisis. Thus, the Volcker liquidity crunch came at a time in which world trade had already been deteriorating vis-à-vis the halcyon pre-1973 period. Indeed, it is arguable that had it not been for the European Monetary System's stabilizing effect on international currency rates at the end of 1978 and during 1979 to present, the world would already be in an acknowledged recession, even without the new Fed chief's aggressive help.

Growing deficits

As the IMF's latest annual report emphasizes, the industrialized countries will have to forego between

two-thirds and three-quarters of a percentage point in real economic growth this year owing to the first semester's oil price rises alone. More expensive oil will also add about 1.5 percentage points to world inflation and will cause the reemergence of balance of trade or balance of payments deficits, or both, among the leading exporting countries.

West Germany, the only country that managed to achieve a trade surplus with the OPEC countries last year is now faced with dwindling trade surpluses and the prospect of a sizeable current accounts deficit next year—despite a continued but slower export surge.

While German exports rose by 11.8 percent to DM204.3 billion in the first eight months of this year, Jan-Aug. imports swelled by 18.3 percent to DM187.8 billion. The trade surplus over that period thus amounted to DM16.5 billion, a drop of nearly one-third from the comparable period last year. Meanwhile, West Germany's current account produced a DM4.4 billion deficit over the Jan.-Aug. period, a swing of DM11.8 billion from the DM7.4 billion surplus posted in the Jan.-Aug. 1978 period.

In Japan, rising oil prices and a steep decline in the visible trade balance pushed the country's current account deficit to an all-time high of 1.5 billion in August. "That massive deficit (the August \$669 million deficit) was caused by the recent oil price increase and dwindling Japanese exports," a Bank of Japan official commented.

Japanese exports declined by 4.8 percent in the first half of 1979 compared with the same period last year, while imports rose a whopping 18.7 percent. A leading trading

company has reportedly forecast that Japan's current account deficit could reach as high as \$10 billion during the current fiscal year ending March 31, 1980. In fiscal 1978 Japan had a \$12 billion current account surplus and \$14 billion surplus in the previous year.

Foreign trade results of other OECD countries like France, Italy and Switzerland provide a similar pattern.

France posted a FF4 billion (about \$964 million) trade deficit last August, or, on a seasonally adjusted basis, a deficit of FF3.2 billion (about \$771 million). Given the deficit posted in the first eight months of this year (FF3.5 billion, 4.8 billion seasonally adjusted) the French foreign trade deficit could reach some FF15 billion (\$3.6 billion) in 1979.

The French Foreign Trade Ministry pointed out that last June's oil price rise was reflected for the first time (but not fully) in the August results, with oil prices 44 percent higher than last January.

Likewise, Switzerland experienced a trade deficit of \$3.4 billion in the first seven months of this year (up from \$500 million last year) while Italy's deficit was some \$2 billion, to a large extent due to soaring oil costs (\$5.4 billion).

The LDCs: further into debt

The economic prospects for the third world countries are "very bleak," warns one of the reports to the Council of UNCTAD which convened Oct. 8 in Geneva. "The terms of exchange of most of the developing countries will further deteriorate in 1979 and 1980, following a sharp deterioration in 1978."

Available statistics show that the LDC's exports dropped by 2.8 percent in the first quarter of this year compared with the fourth quarter 1978. Imports rose a low 0.6 percent—a decline in both cases after discounting for inflation. Current estimates put the LDCs' balance of payments deficit at a staggering \$50

billion this year and \$55 billion in 1980, compared with \$31 billion in 1978 and \$21 billion in 1977. Even more staggering is the expected increase in the net debt of the non oil-exporting developing countries: \$82 billion over the years 1979-1980, to a total amount of \$358 billion. Worse, an astounding 70 percent of all private loans to the LDCs will fall due by 1982. Not surprisingly, the number of countries "having difficulties" in paying back their debts has grown from three to eighteen between 1974 and 1978, with the latter's total debt representing 12 percent of the overall LDC debt.

The above figures put in proper perspective the 4.9 percent growth rate attributed to all LDCs (major oil producers excluded)—more than a full percentage point above the industrialized countries—as the World Bank reported in its annual report.

In effect, disparities have kept widening between the so-called newly industrialized countries (NICs) like India, Taiwan, Brazil, etc., and the overwhelming majority of the Third World countries, whose situation by and large is worsening.

The pattern of credit flows last year reflected this situation. Two thirds of Eurodollar loans went to ten of the so-called NICs. Similarly, lending by the World Bank and its affiliates (\$10.44 billion in fiscal 1979) concentrated on the NICs with India getting \$1.2 billion, Indonesia \$700 million, Brazil \$670 million, and Mexico \$550 million.

—Alain LeMal

FOREIGN AID

U.S. can meet emergency food needs

Kampuchea (Cambodia) and Nicaragua's emergency food needs can readily be supplied by a tiny fraction of U.S. farm surpluses, much of which would otherwise rot for lack of an outlet.

Kampuchea requires, for subsistence maintenance of the 4 million survivors of Pol Pot's genocidal Maoist regime 16,000 tons of rice per month until production can be restored. This would ensure that each Cambodian at least gets 400 grams of rice—a little under one pound—per day.

Nicaragua requires slightly above 9,000 metric tons per month for eight months of each of the following products: beans (black or red); rice; oil; flour.

Logistics

Transportation of the emergency food supplies in neither case poses any problems for the United States, which has the most developed logistical capacity in history, a capacity wielded in World War II, the Berlin airlift, the Korean War, and Vietnam. It is time to put that capacity to a moral purpose again, as it was during World War II.

The monthly rice requirements of the entire Kampuchean nation can be carried—with room to spare—in the hold of one containerized ship (25,000-30,000 tons) or by one and a half of the smaller, older ships whose "break-bulk" cargo capacity is 10-12,000 tons.

Nicaragua is but several days sailing from New Orleans, a leading U.S. grain port. Sailing time to Kampuchea is considerably longer—about 20 days, depending on the

weather. Therefore, the first three weeks of rice shipments should be sent in large cargo planes such as the U.S. Air Force's C-5 cargo plane, which can carry 100 tons of cargo. Only a few days' air shipments would actually be necessary, since grain elsewhere in Southeast Asia or in maritime transit in the region could be rerouted to Kampuchea and replaced by later compensating supplies from the United States.

Transportation problems once the food supplies arrive at destination points are manageable. The Nicaraguan government is prepared to receive air or maritime shipments at Corinto or Puerto Sandino. There is an intact transportation network, the hub of which is the capital city of Managua, from which the food will be distributed throughout the nation.

In Kampuchea, distribution must go through the Heng Samrin government, which controls virtually the entire country.

Marginal Aid Efforts to Date

Only marginal food aid has been received from Western government or private sources by either Nicaragua or Kampuchea to date. In Nicaragua's case, the aid received has been principally supplied by the Agency for International Development—a division of Cyrus Vance's State Department. The AID shipments received in August and September met only about 10 percent of actual needs.

In the case of Kampuchea, the combined UNICEF-Red Cross relief effort has managed to supply but one plane per week of supplies since late July, each planeload bringing in about 40 tons of food—1 percent of the country's emergency food aid requirements. Since the campaign for food aid began, the Red Cross has

come up with plans for an escalated aid program. The plan is described in the Oct. 6 New York Times as a "\$100 million joint appeal for a six-month program of emergency medical and food aid" for Cambodia. The Times emphasizes that the Red Cross's program will also succor "the forces of Iol I 6ot" along the Thai border—the murderers of 3 million Cambodians and the same forces who by deliberately burning Cambodia's crops, created the present starvation.

Huge U.S. Surpluses Available

For the past several years, the U.S. farm sector—the most productive in the world—has registered record increases in grain surpluses.

The U.S. not only has the food surpluses—foodstuffs which would otherwise rot—but existing federal legislation allows for *grants* of food aid in circumstances of emergency—through Title II of Public Law 480.

The U.S. surplus food situation for products urgently needed by Kampuchea and Nicaragua is as follows;

- *Rice* (needed by both Kampuchea and Nicaragua). U.S. rice surpluses—the rice left over after exports and domestic consumption are satisfied—will be so large at the end of the 1979-80 season that eight months' supply of rice for Nicaragua and one year's supply for Kampuchea would only absorb 13.6 percent of the U.S. rice surplus stocks.

- *Oil*. Nicaragua's needs for eight months' oil would only diminish existing U.S. surplus soybean oil stocks by 11 percent; if corn oil were to be supplied, the diminution of U.S. stocks would be even less.

- *Dried beans (red or black)*. Supplying Nicaraguan requirements for beans with any combination of a dozen or so comparable U.S. varieties would subtract less than 10 percent of 1979-80 U.S. surplus stocks.

- *Flour*. Nicaraguan flour needs will diminish U.S. flour and wheat stocks by only 1-2 percent—even less if other surplus grains are taken into account.

—Richard Shulman

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Europe: a superpower for peace

Detente with or without the United States

West Germany Chancellor Helmut Schmidt's government has launched an unprecedented public campaign to secure U.S. Senate ratification of the Strategic Arms Limitation Treaty (SALT II). Defense Minister Hans Apel arrived in Washington last week for a series of meetings with Senate leaders and other government officials, and testimony before the Senate Foreign Relations Committee. Apel's message, which went unreported in all the U.S. press, was that if the U.S. does not care enough about the peace and security of the world to ratify the SALT II treaty, then Bonn will not permit the stationing of the American Pershing II or cruise missiles on its territory under the proposed NATO "modernization plan."

Coinciding with Apel's visit, Chancellor Schmidt gave an interview to the London *Economist* (excerpted below), in which he re-emphasized this position. A Senate rejection of SALT, he said, would be a "disastrous blow to the necessary leadership of the United States." How could anyone rely in the future upon the policy of an American President, when three Presidents negotiated this treaty only to have it blocked? Schmidt asked.

President Carter took note of Bonn's growing insistence by quoting in his Oct. 9 press conference the Chancellor's statement that SALT II ratification is a precondition for the NATO modernization program. Following Apel's testimony, protreaty sources in the Senate Foreign Relations Committee leaked to the *Washington Post* a report asserting that "the allies now regard the ratification of SALT II as a major test of U.S. reliability as a leader of the West." European diplomats and others interviewed by the report's authors said they were disinclined to make "the difficult political decisions" required for the weapons modernization program unless the Senate approves SALT, thereby providing "proof of the U.S. commitment to arms control and the continuation of the search for East-West stability." Apel's organizing efforts in Washington followed close on a summit meeting last week between Schmidt and

French President Valery Giscard d'Estaing in Bonn. These two leaders have announced themselves dedicated to making Europe a "superpower for peace," and both are intensively engaged in opening up economic cooperation initiatives "from the Atlantic to the Urals." Said Schmidt in his *Economist* interview: economic cooperation has more importance than most strategic thinkers realize. Schmidt and Giscard concluded their summit vowing support for the SALT treaty, and to work jointly in such fields as satellite research and preparations for next year's Madrid Conference on Security and Cooperation in Europe.

Following the talks, Giscard returned to France and attended French army maneuvers, where, for the first time, Warsaw Pact military representatives were invited as observers. Giscard's Economics Minister René Monory flew to Moscow for meetings of the Franco-Soviet Grand Commission, discussing cooperation in computer technology, nuclear power, space research, and raw materials development.

Brezhnev's arms offer

This series of diplomatic initiatives forms the context for Schmidt's announcement Oct. 7 that he views Soviet President Leonid Brezhnev's unilateral troop cut and offer of negotiations on the USSR's medium-range SS-20 missiles "with satisfaction" and hopes these "will serve as a signal for progress in the framework of future negotiations." Schmidt's deepest policy commitment was revealed in his speech, at a Social Democratic Party conference in Nuremberg, Bavaria, where he characterized the Federal Republic's relations with the German Democratic Republic. With all that still divides the two sovereign German states, he said, they share one underlying conviction: "that never again shall war begin from German soil."

Contrary to howls of rage from London, Washington, and much of the international press (see below), Schmidt's position has nothing to do with "self-Finlandization" or "capitulation to Soviet blackmail." Ac-

ording to the line popularized by former Secretary of State Henry Kissinger at a conference in Brussels last month on the future of NATO, the conflicts which are now rocking the very foundations of the Atlantic Alliance are due to the fact that Western Europe no longer believes in the reliability of the American nuclear umbrella. "Would the United States use its intercontinental ballistic missiles to retaliate for Soviet nuclear strikes against targets in Western Europe, when such retaliation probably would mean a Soviet attack against targets in America?"—that is how *New York Times* military columnist Drew Middleton characterized the alleged West European view in an article Oct. 10. According to this line, U.S. weakness is driving Bonn to consider "striking a deal with the Russians," thereby threatening the very existence of NATO.

NATO split caused by Kissingerian policies

In fact, it is the policies advocated by Kissinger which are causing the turmoil in NATO, not the Soviet offers for troop reduction or Schmidt's positive response. It is not alleged U.S. "reluctance" to use nuclear weapons which dismays the Europeans, but rather Washington's policy of risking war by continuously seeking confrontations with the Soviet Union (as in the recent abortive "showdown" over an alleged Soviet "combat brigade" in Cuba), and American threats to reject the SALT II treaty, jeopardizing world peace.

Whereas the U.S.S.R. and West Germany originally advocated including medium-range weapons in Europe in the SALT negotiations, Kissinger—then Secretary of State—blocked this, arguing that Europe should be left out of the U.S.-Soviet equation. It was Schmidt who, during his 1978 summit meeting with Brezhnev, reintroduced this issue of the "gray zone," since he fully realized that only a global peace solution can work. While Kissinger calls for balancing forces in Western Europe and the Warsaw Pact, leaving the United States arsenal and its mooted alliance with China aside, Schmidt argues that this is insane. If Europe is "decoupled" from the United States in this way, and if the SALT agreement is defeated, the Chancellor is correctly convinced that there will be no possibility of arms reduction in Europe, and the stage will be set for a new Cold War—or worse.

Although the positions of Schmidt and Brezhnev as expressed in their recent speeches are scarcely identical, the way is now open for negotiations. The cornerstone of Bonn's policy on the issue of the new medium-range missiles is that they should only be deployed as a last resort, should negotiations with the Warsaw Pact fail to achieve a Soviet troop and weapon reduction. Since the Pershing II and the Cruise would take at least three years to produce, a decision at the December NATO meeting to initiate "modernization" would leave a long time for discussion before the weapons were actually

deployed, placing the central focus on disarmament negotiations. Brezhnev's proposals, and his endorsement of Franco-German calls for a European disarmament conference, are precisely the preconditions Bonn has insisted upon.

Schmidt and his associates have already begun organizing support for their position, and are seeking clarification from Moscow of what exactly the Soviets have in mind. The Chancellor met Oct. 10 with Italian Prime Minister Cossiga, and elaborated for him the importance of Brezhnev's proposals. The discussions produced a joint communiqué calling for SALT II ratification.

Disarmament spokesman Alfons Pawelczyk from Schmidt's Social Democratic Party, who just returned from a trip to Moscow, announced in Bonn Oct. 9 that in his view the Soviet initiative is not part of a strategy to split the western alliance, but is rather a serious signal of Russian intention. Schmidt's government spokesman, Armin Grunewald, left for Moscow Oct. 10 for further soundings on the military question, and economic consultations to pave the way for Soviet Foreign Minister Andrei Gromyko's upcoming visit to Bonn. The main item on the agenda of Gromyko's visit will be implementation of the 25-year economic cooperation agreements signed by Schmidt and Brezhnev in May 1978.

—Susan Welsh

Schmidt: Salt II must be ratified

The following are excerpts from an interview with West German Chancellor Helmut Schmidt which appeared in The Economist of London on Oct. 6:

Q: You said earlier this year that "never before have we been so secure." What did you mean by that?

A: When I used that phrase, "we" was not meant to be "we" the West as a whole. It was meant to be "we," the Germans, the Germans in the western Federal Republic of Germany, as well as the Germans in the German Democratic Republic, as well as the Germans in West Berlin, that we are securer nowadays than we were in the 1960s and 1950s and 1940s. My reasoning is rather simple. We saw many Berlin crises in earlier decades, the Khrushchev ultimatum, the building of the wall in the early 1960s. Today, on the basis of a continuous equilibrium of military forces which results from these inside Europe, and those working upon Europe from the outside, we have created a policy of cooperation between Western and Eastern Europe. A

policy of what one calls detente, a policy of calculability on both sides....

Q: *We nevertheless do face a situation where western strategic superiority has gone.*

A: It was never a western strategic superiority. It was an American superiority in intercontinental strategic nuclear weaponry....

Q: *I was talking about strategic superiority.*

A: I do not like that. I think it's wrong to use the word "strategic" only in the context of intercontinental nuclear weaponry. It's a wrong perception of strategy. I use the word "strategy" in the sense of the late Captain Liddel Hart's grand strategy which embraces not only all the military fields but of course also the political, the psychological, the economic fields....

Q: *If one takes the Gulf area, for example. The equilibrium, wouldn't you concede, is less stable now than it was?*

A: Right, right. Not so much due to Soviet activities. Iran hasn't collapsed because of Soviet activities.... I personally do not believe that in the end the complex of Middle East questions can be settled without some participation of the Soviet Union.... I do not maintain that Soviet influence as regards the Palestine question or the complexities between Israel and her neighbors is greater than it was five years ago. It's smaller, indeed.

Q: *What role does or could Europe play in that sort of area in, say the Horn of Africa or in Africa itself?*

A: A rather small role because there isn't much that Europe could provide, what could the Europeans give or guarantee? Could they guarantee military assistance? Could they guarantee the flow of oil into Israel? Obviously they can't. They can, of course, be helpful in a limited way. But it is more or less a fact, whether you like it or not—and I don't like it too much but I have to accept it as a fact—that the Americans are the ones who have influence there, and, to a lesser degree, the Soviets. There is no European Sixth Fleet in the Mediterranean, nor is there any such thing in the Indian Ocean, nor in the Gulf—nor would there be any such thing....

Q: *Is SALT II vital to maintaining the nuclear strategic balance that you talked about earlier?*

A: Yes, it gives some stability in that balance. Only in that one field,...if SALT II is not ratified as it stands, it could—and this would be my apprehension—create a broad feeling of uncertainty. This treaty has been negotiated by three American Presidents, Nixon, Ford and Carter, by three American Secretaries of State, Rogers, Kissinger and, nowadays, Vance and their aides and security advisers and so on. If after such a long period of negotiation and agreement, in the end parlia-

mentarians refuse to ratify that sort of treaty, the world becomes rather incalculable. How could you in the future depend on a policy carried out by an American president? It would be a disastrous blow to the necessary leadership of the United States as regards the West as a whole. I rule out amendments, which would require negotiation...

Q: *It has been said in West Germany that the increase in Russian military strength was primarily or purely defensive. Is that a notion which you subscribe to?*

A: I will not comment on what others have said. I myself believe that the Brezhnev leadership is fundamentally not aiming at war in Europe, not aiming at offensive moves in Europe, but aiming at maintaining a stable and secure situation. I have to add that, as it was in the past, so also in their perception on stable security in the present, the Russians have always wanted to be on the safe side, having a little more in any field than others, a little better, well, that is their built in instinct. They overdo it in some fields.... But there is, as far as I can see, no tacit hidden offensive attitude behind Russia's policy. This goes for the present leadership in the Soviet Union. I'm not making any prophecies for the rest of the 1980s....

Q: *What about Russian intentions outside Europe, which seems to me much less just a question of containing and preserving the status quo?*

A: ...I do not think that the present leadership in the Soviet Union would risk any showdown anywhere in the world. I think that one could see this rather clearly in the case of the Vietnamese request for Soviet help vis-à-vis the so-called Chinese operation of punishment. The Soviets behaved rather cautiously.... I was critical of the Chinese. They don't have a right to punish somebody, nobody has a right to violate the territory of somebody else, to violate somebody else's sovereignty....

Q: *I must say you're sounding to me somewhat as you were represented after Brezhnev's visit here in May, 1978. There was speculation at that time that there was an understanding between the two of you that the Federal Republic of Germany and its leadership would become the advocates of Soviet attitudes within the alliance.*

A: We are not the advocates of the Russians. We are not even the interpreters of the Russians. They are a great power, one of the two largest in the world, who can and do speak for themselves.... We contribute quite a bit to the defense abilities of that alliance (NATO—ed.). To think of the alliance without Germany is to think of fairly little.

...A return to the Cold War is still thinkable: I hope it doesn't occur, but we have not passed the point of no return as yet. Economic cooperation is more important than strategic thinkers yet understand.

U.S.S.R. offers bold disarmament plan

An Oct. 5 speech by Soviet President Leonid Brezhnev stunned official Washington with two unexpected announcements. First, Brezhnev revealed that the U.S.S.R. would unilaterally withdraw 20,000 troops and 1,000 tanks from East Germany during the next year. Second, Brezhnev not only attacked the NATO missile-deployment plan, but indicated that Moscow was prepared to negotiate on the entire issue of medium-range nuclear weapons in Europe, possibly leading to cutbacks in the Soviet force.

Brezhnev's speech had been anticipated in the U.S. as the authoritative Soviet response to the plan to send American medium-range nuclear missiles to Western Europe. That plan is now under debate in Western Europe.

Brezhnev's initiatives were less of a surprise in Western European capitals, especially Bonn. On Oct. 4, the Social Democratic Party's arms expert Pawelczyk, just returned from discussions on disarmament in Moscow, reported that high-ranking Soviet officials there had indicated readiness to discuss and negotiate about the SS-20—the Russian medium-range rocket to which the new NATO missiles are supposed to be a response. These Soviet hints, confirmed and amplified by Brezhnev's proposals, dovetailed with West German Defense Minister Apel's insistence that arms negotiations with the Soviets should precede deployment of the NATO weapons and provide the basis for deciding for or against them.

A top Soviet expert on West Germany has revealed that Moscow shares Bonn's hinting that SALT III would be the most opportune forum for these negotiations, but that if that proves impossible (for instance, with the further delay of SALT II's ratification), the question could be addressed even sooner and in other locations. The official, Central Committee Secretary Valentin Falin, who was Soviet ambassador to Bonn until recently, told the *Koelner Stadt-Anzeiger* Sept. 22 that direct talks on nuclear missiles in Europe could begin before SALT II is ratified.

Brezhnev's offers, because they were unexpected, have drawn a great deal of attention. But, the tough warning tone he adopted in describing the consequences if the NATO deployment goes ahead without talks is equally important. The strong words of his speech

(excerpted below) were seconded by the even stronger terms of his communiqué with the East German leaders, which forecast that Europe would "plunge into a new dangerous round of the arms race."

Brezhnev evoked the image of destruction in war of countries basing the missiles, while offering a non-aggression pledge to those which stayed free of them. Falin, too, called on Bonn, particularly, to accept a special responsibility for advancing arms control, appealing to West Germany's interest in "enhancing its flexibility for action" outside the scope of current United States policies which through "political maneuvers in Europe and Japan, in the Indian Ocean and in the Middle East, as well as with China" seek to "abolish the balance just agreed under SALT II."

—Rachel Douglas

Brezhnev makes an offer

On Oct. 5, Soviet President Leonid Brezhnev addressed an East Berlin audience on the occasion of the 30th anniversary of the German Democratic Republic. The following are excerpts.

We cannot fail to see real facts: the supporters of the arms race use any pretexts, even nonexistent, fabricated ones, in order to heat up the situation and whip up military preparations. As for Europe, they are planning to plant a mine beneath the edifice of peace, under its very foundation.

The dangerous plans for the deployment of new types of American nuclear missile weapons on the territory of Western Europe ... give cause for serious concern. ... Implementation of these designs would essentially alter the strategic situation on the continent. Their aim is to upset the balance of forces that has taken shape in Europe and to try to ensure military superiority for the NATO bloc.

As for military superiority—we shall see. In such an event, the socialist countries would of course not watch indifferently the efforts of the NATO militarists. We would have to take the necessary extra steps to strengthen our security. There would be no other way out remaining to us.

It is no secret that the Federal Republic of Germany, alongside the U.S., is assigned not the smallest part in the preparation of these dangerous plans. ... It is not hard to see what consequences the Federal Republic would have in store for itself if these new weapons were put to use by their owners one day. ...

As Chairman of the Defense Council of the U.S.S.R. I am most definitely stating that the number of medium-range carriers of nuclear arms on the territory of the

European part of the Soviet Union has not been increased by a single missile, by a single plane during the past 10 years.

I will say more. We are prepared to reduce the number of medium-range nuclear means deployed in Western areas of the Soviet Union as compared to the present level but, of course, only in the event no additional medium-range nuclear means are deployed in Western Europe.

I also want to confirm solemnly that the Soviet Union will never use nuclear arms against those states that renounce the production and acquisition of such arms and do not have them on their territory.

Motivated by a sincere desire to take the years of efforts to achieve military detente in Europe out of an impasse to show an example of transition from words to real deeds, we have decided, in agreement with the leadership of the German Democratic Republic and after consultations with other member countries of the Warsaw Treaty, to unilaterally reduce the number of Soviet troops in Central Europe. Up to 20,000 Soviet servicemen, a thousand tanks and also a certain amount of other military hardware will be withdrawn from the territory of the German Democratic Republic over the next 12 months....

Lying ahead, as is known, are ... important talks on SALT-III. We are for commencing them immediately after the SALT-II Treaty enters into force. Within the framework of these talks we agree to discuss the possibilities of limiting not only intercontinental but also other types of armaments...."

Confidence building

Soviet President Brezhnev's disarmament proposal to Europe also included the following "confidence building" measures to be taken by both sides:

- To announce maneuvers of land forces earlier than has been done previously and to announce maneuvers of more than 20,000 men in advance.
- To forbid troop exercises of more than 40-50,000 men.
- To prevent naval and air maneuvers in the vicinity of other CSCE countries (all of Europe, plus the United States and Canada) which belong to the opposite military bloc.
- To preannounce not only military exercises, but troop movements of more than 20,000 men.

U.S., Britain respond

Within days of Soviet President Brezhnev's announcement, the response came pouring out of the U.S. and Great Britain. Here is a selection.

Carter: 'effort to disarm our allies'

From President Carter's press conference Oct. 9:

Our allies and we are carefully assessing the significance of President Brezhnev's statement. However I'd like to point out that what he's offering, in effect, is to continue their own rate of modernization as it has been, provided we don't modernize at all.

They have had actual reduction in launchers the last few years. They've been replacing their old SS-4's and SS-5's with the SS-20, not on a one-for-one basis; the old missiles only had one warhead. The SS-20 had a much greater range.... They have also replaced all older airplanes with the Backfire bomber. So it's not quite as constructive a proposal as at first blush it seems to be. I think it's an effort designed to disarm the willingness or eagerness of our allies adequately to defend themselves. In my judgment the decision ought to be made to modernize the Western allies'

military strength and then negotiate with a full commitment and determination mutually to lower armaments on both sides....

I might point out that Chancellor Schmidt said, I believe yesterday or the day before, that a prerequisite to a decision by our NATO allies to take these steps, which he considers to be vital for the security of NATO, is the passage of SALT II.

Kissinger: 'split the allies'

Washington Post, Oct. 9, reporting a speech by former Secretary of State Henry Kissinger at the American Bankers Association convention in New Orleans: ... Citing a speech last week in Berlin by Soviet President Leonid I. Brezhnev, Kissinger warned that it was "designed to split our allies from the United States."...

Kissinger said a "new reality" of the 1980s will be reduced strength of American military forces compared with the Soviet Union. For this reason, he said, the strategic arms limitation treaty must be coupled with "significant increases" in U.S. military spending.

NATO: no 'freeze' in Brezhnev's favor

The Financial Times, Oct. 8: ... The NATO allies yesterday made it plain they would reject any Soviet

France promotes peace from Atlantic to Urals

Under the leadership of President Valéry Giscard d'Estaing, France has been promoting a policy of peace in Europe "from the Atlantic to the Urals"—a policy that has implications for the developing sector and the Middle East in particular. Closely coordinating with the Federal Republic of Germany, France is determined to silence the calls emanating from Henry Kissinger's circle for an arms buildup and a dismantling of what remains of U.S.-Soviet detente by wrecking the SALT II agreement.

This is why Giscard took his entire government—nine ministers in all—to West Germany for a summit meeting with Chancellor Helmut Schmidt in the first week of October.

The two heads of state ended their summit by

issuing a statement that was an unequivocal demand for the passage of the SALT II agreement by the U.S. Congress. The two leaders stipulated that allegations concerning the presence of Soviet troops in Cuba are not an excuse for stalling or vetoing the treaty accord.

The presence of French Defense Minister Bourges in the delegation signified the resolve to work out the best defense arrangements for Europe. An agreement was reached to call for a Pan-European conference on disarmament, a proposal put forward by Giscard and approved by the Soviet Union.

Also discussed were:

Energy: France is lending Chancellor Schmidt support for his stand for nuclear development in West Germany—and all of Europe—and have suggested a revamping of the Euratom treaty. Speaking on West German TV after the summit, Giscard posed the debate around nuclear energy in terms of a reduction of living standards versus nuclear development. On the oil issue, Giscard pushed for West German agreement to Industry Minister Giraud's plan to control the Rotterdam spot market.

European Monetary System: The two countries reached an agreement to limit West German interest rate increases and to better coordinate central bank

proposal that might entail "freezing" the present arms balance in the Warsaw Pact's favor.

NATO's carefully worded reaction, hurriedly agreed between the 15 member-countries of the alliance and issued from its Brussels headquarters, was in response to Mr. Leonid Brezhnev's weekend offer of a reduction in the Warsaw Pact's medium-range nuclear strike forces...

"Such negotiations," the NATO text reads, "would have to be based on the principle of equal rights and security, and should not serve to contractualize the current inequality."

'Mr. Brezhnev's ploy'

The Baltimore Sun, editorial, Oct. 9:... Mr. Brezhnev's purpose is to derail the NATO weapons modernization plan by stirring political dissent in the European democracies. His weapons are deception and fear. Thus his withdrawal promise, a propaganda ploy without military significance, was combined with a brutal warning—if West Germany accepts U.S. Pershing II surface-to-surface missiles and long-rang cruise missiles "it is not difficult to imagine what consequences would await her if this weaponry were ever put to use."...

NATO should give Mr. Brezhnev the only kind of

answer he understands by going ahead with deployment of Pershing and cruise missiles.

A Soviet intervention...

The Guardian, London, Oct. 8:

... After Mr. Brezhnev's latest intervention, the big question is whether Chancellor Schmidt will want to reopen West Germany's agreement to join in the modernization program before exploring the new Soviet proposals. He will be under heavy pressure from the Christian Democratic opposition to do no such thing. But sources close to him suggest that he may be tempted to argue that, at a time of exceptionally weak American leadership, the European members of the NATO alliance must take seriously both Mr. Brezhnev's proposals and his threats...

Reluctantly, some leading West German politicians seem to have concluded, after a first reading of Mr. Brezhnev's Berlin speech, that the Soviet leader in his physical decline is in far better political health than President Carter.

action on the exchange markets—all efforts to strengthen the European Monetary System to replace the International Monetary Fund. Said Giscard, according to press reports, the relationship between himself and Schmidt, their two governments and peoples has created a situation in which the international community depends on this relationship for stability. The EMS, he said, was born out of talks between the two heads of state a year ago. Now the EMS not only exists, but is capable of resisting the tensions on the international financial markets.

Trade and technology: Giscard and Schmidt agreed on a joint telecommunications satellite project. This decision takes Franco-German industrial cooperation to a new plane; previously the main achievements had been the Airbus jet and the Ariane rocket. The new satellites are scheduled to be operational between 1983 and 1985.

After the Giscard-Schmidt working meeting, France's Minister of Economic Affairs, René Monory flew to the Soviet Union for a meeting of the Franco-Soviet Joint Commission. Among the projects to be discussed are joint space and satellite programs, scientific research and development, computers, and a credit

line to finance French oil imports from the Soviet Union.

Returning to France, Giscard attended military maneuvers intended to test the interrelationship between French conventional and nuclear forces. Defense Minister Bourges opened the maneuvers with a speech stressing the importance of France's independent capability in the military fields. Among the observers from 25 countries were representatives from Warsaw Pact nations.

But most indicative of Giscard's foreign policy approach was his reported reference to King Henri IV during his tour of the Aquitaine region of France. This 16th century French King authored the "Grand Design" policy of uniting Europe around a peace-winning program of scientific, economic, and technological development. This approach later served as the model for the American Revolution. Giscard then brought the analogy to the present stating that France does not need a "common enemy," as in World War II, to rebuild today the national unity that characterized the Resistance.

—Garance Phau

Environmentalist setback at Seabrook

An eyewitness report by the man who blew the whistle

Over this past Columbus Day weekend, the American environmentalist movement suffered a severe and demoralizing setback, when only 1,500 of an expected 10-15,000 persons appeared in Seabrook, New Hampshire for a planned assault and occupation of the nuclear plant-construction site there. The significant aspect of the defeat was not the small size of the attacking force, or their failure to accomplish the demonstration's goals as such. The defeat occurred beforehand, on the political plane. The environmentalist movement's nature and purposes had been heavily discredited in connection with a growing political debate over America's economic future, focusing on the role of nuclear energy.

The issue was all the hotter in New Hampshire, a state in the midst of a presidential primary campaign; and it was a presidential primary campaign, that of Democratic candidate Lyndon LaRouche, a staunch nuclear advocate, that defeated the environmentalists long before they arrived at their deployment site.

The fight is far from over; but we can breathe a sigh of relief that what might easily have become the starting-point for a nationwide wave of terrorism against nuclear energy and economic growth, instead flopped badly in the marshy lands surrounding one of our nation's finest nuclear projects.

I was in Seabrook this weekend, to witness the demonstration that had been months in planning. It was to be an occupation, by "human wave" assault, of the massive plant complex, dismantling the partially built installations in favor of what environmentalist initiates dub an "alternative community," remaining in place until the nuclear project was permanently cancelled. It was to be the biggest, the best publicized, and the first really violent action taken by United States environmentalists.

As I watched the first signs of action early in the morning of Saturday, Oct. 6, it occurred to me that I knew a great deal more about the situation than most law enforcement officials on the scene. My wife and I had done extensive research on the individuals and groups involved, with startling results. I knew who the demonstrators were, much better than they themselves knew. I knew where the money came from, who con-

trolled the leading organizers, and who stood to benefit. Moreover, whatever path or link we traced, we came back to the same place: Ted Kennedy.

I had done everything in my power to spread this knowledge. I passed all information to executive and law enforcement officials in New Hampshire and elsewhere. I also passed the information to the campaign staff of Lyndon LaRouche, whose New Hampshire effort is easily the most vigorous of any candidate's. LaRouche put the story out everywhere in the weeks prior to the demonstration: terrorism was planned under cover of the "masses" scheduled to participate, and the controllers at the top were known. He named them, in print, and on television. I also passed the information to this journal, which regularly published the findings of our ongoing investigation.

As the demonstrators assembled at their appointed spots, the political task—placing the penalty of public exposure at the doorstep of the Kennedy machine behind the terrorists—had been accomplished. The demonstration itself, I could only leave to the national guardsmen and the police.

The action

The "human wave" assault failed miserably. Thirty-six hours into the planned invasion by a little over a thousand muddy, would-be occupiers, law officers concluded that the threat of violence had passed. At that point, 1,000 highly disorganized and demoralized environmentalists milled about the marshlands adjacent to the core construction, their first assaults repulsed with few injuries or arrests, and their numbers too small to try again.

In the first attack, with gas masks, shields and wire-cutters, the ecologists were impelled to retreat when, through each hole cut in the perimeter fence, police or guardsmen emerged to gently confiscate their tools. At least three additional assaults were made during the afternoon, each time with the same result. By 2:00 p.m., all were disarmed, and thoroughly disorganized. They convened a meeting on the marsh where high tide had stranded them. A six-hour debate led to no decisions. Obviously, the entire incident was at an end.

Terrorist "observers"

I had done some checking during the course of the afternoon. I discovered that several key groups who were to have been in the phalanx of the assaults had not participated at all. I found them all present, however, as "observers." The "Black Rose Collective" that operates out of Massachusetts Institute of Technology, under the close supervision of RAND Corporation associate Noam Chomsky, was committed to "violence as a principled part" of the movement's strategy, and backed plans for Seabrook. But a short time beforehand, they had withdrawn, as the political publicity about the terrorist threat reached a pitch. They had concluded that the "movement was not ready" for their activity.

Similarly, several of the more battle-trained "affinity groups," into which demonstration participants had been organized for training long beforehand, had withdrawn, and only observed, including the "Hard Rain" faction in the Coalition for Direct Action at Seabrook. The "Midnights Note Collective" was to have participated through a front group, the "Brooklyn Anti-Nuclear Group." This group shares members with the "Defense Committee" for Tony Negri, who had been arrested as a controller of the notorious "Red Brigades" terrorists in Italy during the assassination of Aldo Moro.

I had discovered such connections, and *EIR* made them public. As a result, the terrorist "professionals," who knew battle tactics and who knew how to use a crowd to make violence happen, had withdrawn.

In a related way, respectable non-terrorist elements had distanced themselves from the event. Tom Hayden and Jane Fonda, who had toured the nation to build for the action, suddenly withdrew support a week beforehand. That was understandable. Jane Fonda's activities are run by one Don Rose, who also ran Chicago mayor Jane Byrne's election campaign. Don Rose and Jane Byrne have both been Kennedy machine properties for a long time. Jane Fonda was feeling the heat. The heat was on Kennedy.

Ted Kennedy wants to run for president. But Kennedy personally addressed the founding convention of the Citizens Labor Energy Coalition, which was key in

preparations for the Seabrook action—but which later, like Fonda, distanced itself. Kennedy bases his energy speeches on information provided by one Vince Taylor, a leading figure in the MUSE Foundation (Musicians United for Safe Energy), which had brought together a gaggle of rock musicians, Jane Fonda, and others to stage bacchanalian drug-rock events to raise money and recruit bodies for Seabrook. The funders, as well as the activists in this, were closely tied to either the Kennedy machine in general, or the "Draft Kennedy" electoral effort in particular.

By Saturday, Oct. 6, such realities were known everywhere through the LaRouche campaign and the *Executive Intelligence Review*.

Presidential-hopeful LaRouche himself summarized them, even as what remained of the Seabrook "human wave" was dissipating.

"The small size of the attacking force is chiefly the result of my own campaign of exposure. By threatening to expose the direct links between the planners of violence and the left wing of the so-called Kennedy machine, that campaign forced the Kennedy machine itself to act to defuse the demonstration for fear that otherwise, major violence would terminate the ambitions of the so-called Draft Kennedy effort then and there. It is a proven principle, in dealing with terrorists and related forms of antinuclear activity in Europe, that public political exposure of high level circles behind the antinuclear shock troops is an indispensable part of the required package for minimizing violence. In this case, the staff's exposure effort, combined with official law enforcement and other precautions, proves once again the proper method for dealing with terrorism and related forms of violence by antinuclear shock troops."

The exposure of Kennedy-linked persons saw the withdrawal of public support from the Seabrook action by those persons, including the most prominent antinuclear spokesmen. The terrorist "professionals," employed by the same circles, also naturally pulled out. It was with a certain sense of deep satisfaction that my wife and I watched as the remnant cannon-fodder of the anti-nuclear coalition flopped around in the New Hampshire mud.

—Ernest White

Upset for CFR in Japan

Prime Minister Ohira in trouble over parliamentary election setback

The best measure of the significance of Japan's recent elections, where Prime Minister Ohira's ruling Liberal Democratic Party suffered a crushing electoral loss in its fight to increase its control over the Lower House of Japan's Diet, can be found not in Tokyo but rather in the gloom the news has caused in policymaking circles in New York and Washington.

The Council on Foreign Relations elite expected and wanted a strong LDP showing that would give the LDP 271 seats, up from 249 seats. Such a show of force, the CFR hoped, would guarantee that Prime Minister Ohira, who enjoys strong support in both New York and Washington, would consolidate his rule over the LDP for at least two more years.

As the electoral results poured in from Japan on late Sunday night, it became clear that the CFR's scenario had backfired. Far from gaining 20 or so seats, the LDP lost a seat, dropping from 249 to 248, and the Japanese press was flooded with stories that Ohira was now facing the most serious crisis of his political life.

As of this writing, Ohira's political fate, as well as the future course of Japanese politics, is being decided in the backrooms of Tokyo. The situation is so volatile that while most observers feel Ohira will be able to retain his post as prime minister in a new government, the extent of his personal responsibility for the LDP defeat is so great that he may even be forced out of power. The depth of the Liberal Party's anger at Ohira was best expressed by former premier Takeo Miki, who angrily demanded that Ohira "take responsibility" and step down as prime minister. If Ohira does survive it will be largely due to the inability of the strongly anti-Ohira factions of the party to unify on one candidate to oppose him.

Equally worrying from Washington's point of view is not just the fact that Ohira is now weakened but the way he was weakened. Ohira became the most unpopular man in Japan over the past month by his insistence that, once the elections were over, he would enact a new value-added tax.

Ohira's commitment to the tax was understood in Japan as part of his attempt to implement an economic policy for Japan prescribed by the Brookings Institution. The plan hinges around both the lowering of

Japan's high-technology export market and the substitution of this market with a policy of artificially stimulating Japan's "internal market." For an economy already so heavily dependent on deficit bond flotation (over 40 percent of Japan's budget is currently financed via national bonds), the increased tax was deemed necessary by former Finance Ministry bureaucrat Ohira to avoid an even further dangerous increase in debt

Election results in Japan

The 1979 results are election totals. Since the results were announced, five independents have joined the LDP and five more are expected to do the same.

By party	1979	1976
Liberal Democratic Party	248	249
Socialist Party	107	123
Komeito	58	55
Communist Party	41	19
Democratic Socialist Party	35	29
New Liberal Club	4	17
United Social Democratic Party	2	3
Independents	11	7

By members of parliament	1979	1976
Tanaka	48	43
Fukuda	49	52
Ohira	47	32
Nakasone	39	42
Miki	30	33

The above chart shows the factional strength of the five major leaders of the LDP in light of the electoral results. The LDP has for years been organized around major leaders.

while bowing to Washington's demands.

Ohira's tax hike demand was denounced by over 80 percent of the LDP's own candidates as well as by Japan's big business federation, Keidanren. It was Ohira's tax stand, which even he himself was forced to modify late in the campaign, which is the single most important reason the LDP failed to do better in the vote.

The tax issue was so to speak the "straw that broke the camel's back" both in business circles and in the general public. Now, no matter what else happens, Ohira's political momentum has been shattered.

Shifts in foreign policy

Equally significant, Ohira in the past few weeks has also come under significant pressure to realign Japan away from Washington on foreign policy questions. The Japanese government's recent endorsement of Jordanian King Hussein's plan for a comprehensive Middle East peace (which occurred after Japan's Foreign Minister met Hussein at the UN in late September) is a reversal of the Ohira government's previous posture for a Camp David separate peace. Ohira's partiality to Washington's Camp David policy had threatened Japan's vital oil supplies from the Mideast.

Ohira has also been forced to back away from his Peking and State Department supported policy of keeping Japan-Soviet relations on the back burner. In the past few weeks Tokyo has gone out of its way to shore up its ties with the Soviet Union in careful avoidance of the Cold War atmosphere that has been coming out of Washington. The gains posted by the Japanese Communist Party, Japan's most nationalistic and both anti-Washington and anti-Peking party, which increased its parliamentary seats from 17 to 39, is another indication of the growing mood in Japan.

Despite this recent trend in Japanese foreign policy to restore a balance to Japanese foreign policy, there still remains a significant vacuum at the core of Japanese foreign policy, particularly regarding the European Monetary System. Ohira's predecessor government, that of Takeo Fukuda, had been a staunch supporter of the European Monetary System and European efforts to develop nuclear power and create the political condi-

tions to industrialize the Third World. But now, even the most anti-Ohira forces in Japanese ruling circles have continued to avoid a decision to support the new monetary system purely out of the fear of alienating the United States even further. This confusion over a positive foreign policy to replace Ohira's propitiation is most visible in the lack of unity inside the LDP itself over a clear anti-Ohira candidate.

This is not to say that all factions inside Japan are not acutely aware of the growing conflict between the EMS and the International Monetary Fund. As an Asahi Daily News special survey on the IMF conference at Belgrade noted, "Another matter for concern for the U.S. is that the European Monetary System has somehow or other managed to get started... Even the power of the U.S. is not enough to affect the EMS." Yet not one significant voice in Tokyo was raised in protest at the government's decision to endorse at Belgrade the U.S.-supported proposal to support the IMF's own reserve currency, the Special Drawing Right.

Despite that fact, the result of the election guarantees that Japan from here on in will be in a far better position to respond to the EMS motion than it was when Ohira's power went unchallenged. According to most observers, the weakening of Ohira will become apparent when (assuming he retains the premiership), he will be forced to give significant party and cabinet posts to his factional enemies in the name of "party unity." These enemies, most significantly the factions around former premiers Fukuda and Miki, have in the past shown themselves far more open to taking an independent policy stand away from Washington.

The weakening of the U.S. grip over Japan which occurred last week was best reflected in an October 11 editorial on the elections in the New York Times. According to the Times, "Americans think Japan should be redressing the balance (of payments) by admitting more foreign goods, consuming more at home and spending more for national defense and foreign aid. But these steps would require strong political leadership." The Times then bemoans the fact that Ohira's weak showing makes such a result impossible. The "predictable result" of the election on U.S.-Japanese relations "will be continued tension."

State Department on Cambodia: 'neutrality' on genocide

Last month the government of the United States voted to seat the Pol Pot-Ieng Sary regime as the legitimate government of Kampuchea at the United Nations—despite the fact that it is known that the Pol Pot regime murdered 3 million Kampucheans in its three and a half years of power. The following are statements issued by the State Department regarding this decision of the Carter Administration.

State Department statement Sept. 27:

There can be no doubt that Pol Pot authorities are guilty of some of the most brutal violations of human rights in modern history. President Carter described that regime in 1978 as the worst violator of human rights in the world. Because of the extraordinarily tight controls exercised over the Kampuchean society by that totalitarian regime, it is not possible to know the number of Khmer actually executed by the Pol Pot government. In addition to the extensive executions, many Khmer died as a consequence of the Pol Pot government's attempts to restructure the society along the lines of a primitive communist state. Many Khmer died, for example, as a result of the forced evacuation of the urban areas shortly after the coming to power of the regime. Others perished of disease and the effects of having limited food in the rival communes he set up. In all, we believe that the population of Kampuchea declined by close to 2 million people from the time that the regime came to power in 1975, to the present. Many more face death today from the ravages of disease and starvation which have followed in the wake of four years of despotic rule and foreign invasion and occupation.

The following exchange between White House spokesman Jody Powell and EIR correspondent Laura Chasen took place on Sept. 27, at the noon White House press briefing:

EIR: *The President has been making a very big issue of his stand on human rights. And yet, this government voted to seat the Pol Pot government at the UN. We did not vote as the French did, not to seat any existing government. We voted to seat the Pol Pot government. Your human rights division says that that government is guilty of committing a holocaust. I would like to know why we voted to seat that government, and why we haven't attempted to get the Nuremberg tribunal reconvened to try Pol Pot, which is still possible under international law.*

Mr. Powell: I believe the question was related there to an alternative between the government and—

EIR: *No, you voted positively to seat Pol Pot.*

Mr. Powell: —and an attempt to seat what was essentially a Vietnamese government—

EIR: *No, that is not—*

Mr. Powell: —what was essentially a Vietnamese government imposed by means which we are all aware of. If you want further details, you will have to argue with the State Department.

EIR: *Excuse me. That is not the question. The French voted not to seat either of those governments. We didn't even do that. We voted to seat Pol Pot.*

Mr. Powell: I can't—I don't think there is any—I mean sometimes the French vote differently from what we do.

EIR: *What I am asking is why this government committed itself to the government that killed 2 to 3 million—*

Mr. Powell: I have given you the best response I can off the top of my head. If you want to pursue it further, harass Tom (Reston, Assistant State Dept. spokesman).

The following exchange between EIR correspondent Laura Chasen and a high State Department official who speaks for the administration took place on October 1:

EIR: *How does the administration justify voting to seat Pol Pot at the United Nations, when the State Department admits that regime was guilty of murdering close to 2 million people? France voted to leave the seat empty.*

Administration: Voting to leave the seat empty did not seem to be a useful or more palatable option. Those directly situated in the region felt that this approach was the best. They feel very strongly that the worst possible alternative is to reward aggression and to unseat a regime which simply ceases to be functioning because of invasion by Vietnam.

EIR: *Are you referring to the Peking regime?*

Administration: I am referring to ASEAN (Association of South East Asian Nations: Singapore, Thailand,

Malaysia, Indonesia, Philippines) who were largely responsible for that stunning victory at the UN.

EIR: *So you no longer claim to be taking the international lead on human rights questions, but will simply follow what other states wish to do?*

Administration: No. I am saying that there was no, in fact, good alternative.

The following statements were issued by the State Department Sept. 28 in response to questions by EIR:

Q: *What is the strength of Pol Pot's armed forces?*

A: We estimate that there are between 20,000 and 30,000 armed Khmer fighting under Pol Pot's leadership.

Q: *Does the Department have any information concerning reports that the Chinese have mobilized as many as 500,000 troops on the Vietnam border?*

A: There are in excess of 100,000 Chinese troops along the Vietnam border, but we have no evidence to confirm a substantial buildup.

The following exchange between EIR correspondent Laura Chasen and State Department spokesman Hodding Carter III took place on October 3. This is an unofficial transcript.

Q: *If the PRC undertakes another aggression against the Socialist Republic of Vietnam or Laos, will the Department of State state in advance that you will not only disassociate our government from that action, but will condemn and work to end such aggression? I ask this in light of the belligerent statements made by the PRC to the (U.S.) Vice President (Walter Mondale), and would further like to know if the Department thinks in view of*

these statements that China is a threat to the peace and stability in the area?

A: Oh, you know what our position is on the earlier aggression—er, I mean conflict ... I am not aware of any feelings to the effect that China is a threat to peace and stability.

Q: *Can you tell me how you justify placing in the same moral category the Heng Samrin government and the Pol Pot regime? By your own admission Pol Pot is guilty of genocide. Do you have evidence to support equating Heng Samrin with such a regime?*

A: They haven't had time yet.

The State Department issued these answers on Oct. 3 to questions submitted by EIR the previous day:

Q: *How many Chinese advisers were in Cambodia during the Pol Pot regime, 1975-1979?*

A: We have no information on that which we are able to provide. The question is more properly put to the embassy of the PRC.

Q: *Did any other country have a significant number of advisers there at that time?*

A: We have no information of this that we are able to provide.

Q: *Did the Chinese at any time indicate to us what was happening in Cambodia under Pol Pot?*

A: No comment. It is not our custom to disclose our diplomatic conversations with other governments.

Q: *Why are the Chinese not culpable under the "position to know" ("knew or should have known"—ed.) provisions of the Nuremberg decisions concerning genocide?*

A: No comment.

Arab oil-producers using oil as a weapon for development

Declarations—largely blacked out from the U.S. press—by leaders of the Arab oil-producing nations confirm that a far-reaching set of political and economic agreements between the Arab world and the European Community is nearer than ever to finalization. The agreements will ensure long-term supplies of OPEC crude oil in exchange for European technology and development assistance.

The Arab offer is also open to the United States—if Washington reverses its current monetary, economic, and Mideast policy toward acting to industrialize the developing countries. That message was brought to the United States this week by the Secretary General of the Arab League, Chedli Klibi, who informed U.S. businessmen of the Arab world's aspirations for cooperation and energy development.

The key diplomatic players in the negotiations to shape the Euro-Arab oil-for-technology agreement include on the Middle Eastern side, the governments of Saudi Arabia, the United Arab Emirates, and Iraq. Their European counterparts are the governments of French president Giscard d'Estaing and West Germany's Chancellor Schmidt.

Both sides are cognizant that critical economic and political problems must be solved to insure Euro-Arab cooperation.

First, both blocs are working for an alternative Mideast peace policy to Washington's provocative Camp David separate peace. Iraqi Foreign Minister, Saadoun Hamadi this week affirmed that the Arabs "have friends in the world who need to have their oil supplies ensured. We must provide them with what they need and we expect to have their support where our political cause is concerned." The political cause he was referring to is recognition of the PLO.

Second, the two blocs recognize that the control of world oil markets enjoyed by the oil multinationals must be undercut, and that the center for speculation on oil prices, the Rotterdam spot market, must be disciplined. Many oil-producing nations within the cartel have begun to redirect their oil sales away from the multinationals and toward state-to-state direct sales. There are also agreements by the consuming nations to aid OPEC nations in building refining, transport, and marketing

facilities independent of the multinationals.

Third, the world monetary crisis is seen by both the Arabs and Europe as the urgent reason for monetary reform through the remonetization of gold to be institutionalized through the newly formed European Monetary System. Arab producers with large surpluses, notably Saudi Arabia, the United Arab Emirates and Kuwait, have had numerous consultations with both France and West Germany on monetary reform. Two weeks ago a meeting took place in France of French government officials with OPEC oil ministers. According to European sources at last month's OPEC finance ministers meeting, the Arab OPEC (OAPEC) met privately to discuss monetary reform through gold. The West German trade journal, *Handelsblatt*, Oct. 8 reported that the head of OAPEC, Ali Attiga, last week called for a Euro-OAPEC fund of \$25 billion as the beginning of a revenue pool for Third World development. A summit between the EC and OAPEC is slated on energy and economic matters for some time this month.

The way to avoid war

Peace is one of the major concerns of the Euro-Arab dialogue. In a speech delivered two days ago in Vienna at the second annual OPEC-sponsored seminar on future world oil markets, United Arab Emirates Oil Minister Mana Saeed Oteiba urged producer-consumer energy cooperation or "oil will burn." "If there is another world war, it will be over petroleum," declared Oteiba.

In a speech two days before, Oteiba, who is also the president of OPEC and a close ally of Saudi Oil Minister Sheik Ahmad Zaki Yamani, had appealed to Europe for technology to "develop our deserts." He recalled the common cultural heritage of Europe and the Middle East arising from the Arab Renaissance in the Middle Ages, and urged Europe "to intervene right now" against "the threat of war."

Speaking at a conference on Saudi Arabian development this week, Yamani stated that his nation would supply Europe and Japan with adequate energy, "to help our friends and also to assume responsibility toward world demand" for petroleum. In a special

telegram to an international energy symposium signed by the Saudi oil minister, Saudi Arabia for the first time endorsed fusion nuclear power as "the best alternative energy source for the future."

Targetting the multitis

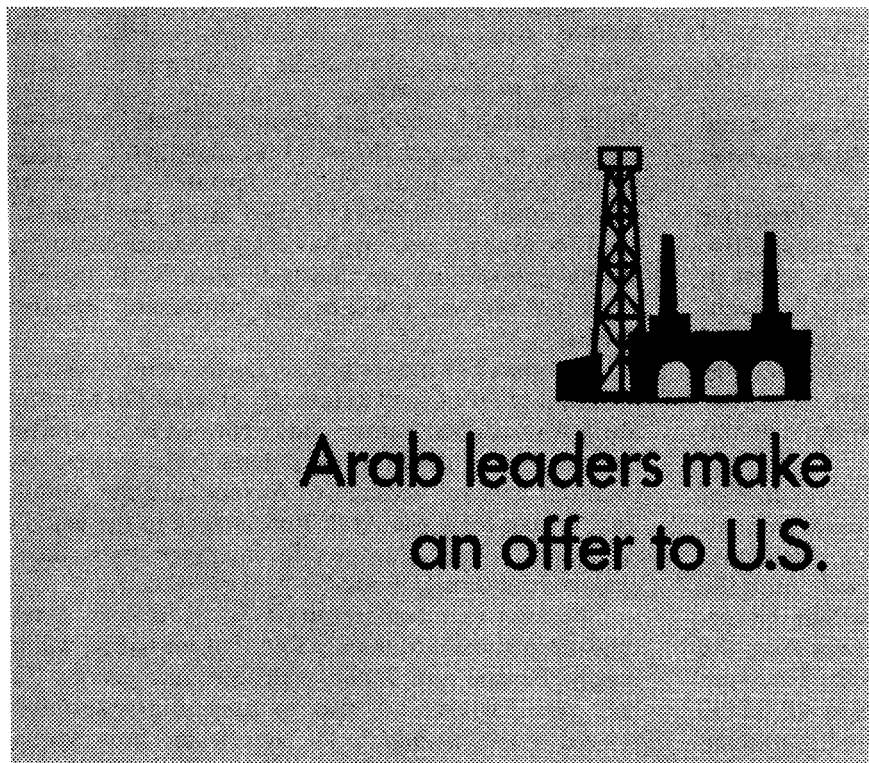
In the last six months, OPEC nations have begun to set state-to-state or direct sales agreements to consuming nations in Europe, the developing sector, Asia, and the East bloc. At the same time, marginal cuts in contracted oil sales to the multinational companies have been made. OPEC and Europe, with France playing the critical role, are also acting to impose restrictions on oil pricing speculation through international spot markets. While France's proposal to this effect was not approved by the seven industrial nations at the Tokyo summit last June, an agreement was subsequently reached to create an international agency to monitor all oil sales to expose market manipulation and oil profiteering. Last month Yamani told a visiting Danish economic delegation that he was in favor of the measure.

Since the "Islamic Revolution" in Iran, many OPEC producers have made sizable production increases, more than offsetting the shortfall of crude caused by the

Iranian export cutbacks. At least five of the 13 OPEC producers, who have always depended upon multinational oil companies for marketing, are beginning to shift sales toward state-to-state deals bypassing the multitis.

Libyan Oil Minister Ezzedin Ali Mabruk this week announced that his country has canceled some oil supply contracts beginning Jan. 1, but would continue supply contracts with companies and countries willing to make investments for oil exploration in Libya. The announcement came after a visit to Libya by Saudi King Khalid, and echoes a similar move the Saudis made last year toward the multitis. Shortly thereafter, Libya announced its first state-to-state deal with West Germany. Libya's North African neighbor, Algeria, has also announced cutbacks in sales to the majors, in favor of shifting to direct sales to Europe. Nigeria recently broke a 300,000 barrel-a-day sales contract with British Petroleum, and has since signed numerous state-to-state contracts, including ones with Sweden and Portugal.

The particular danger for the U.S. with respect to Libya, Algeria, and Nigeria is that they supply the highest percentage of their output to U.S. markets; now their oil is gradually being diverted to markets elsewhere. The amount is small at the moment, but it serves



Arab League Secretary General: Blackmail is not our policy

This is an excerpt of a speech by Chedli Klibi, Secretary General of the Arab League, before the U.S.-Arab Chamber of Commerce in New York:

Public opinion in the United States is an important factor in the formulation of policy; that is why the Arab League will endeavor to strengthen its representation in the United States and its information offices. We are conscious of the fact that changes will not take place quickly or suddenly, but it is important that we persevere in the pursuit of interpreting, regularly, and continuously, Arab perceptions of the issues and matters of mutual concern...

Let it be stated without any equivocation that whatever economic sanctions the Arab League sponsors, under no circumstances do the

as a warning that the OPEC nations may begin to slowly delimit the amount of oil this country receives because of Washington's failure to support the dollar or a viable Middle East policy.

—Judith Weyer

How the Arabs are guaranteeing security

In an interview with *Executive Intelligence Review* on Oct. 2, an Arab military strategist expressed the view that the oil-producers of the Arabian Gulf area are threatened by a "triangle" of Iran, Oman, and Israel which, backed by the United States and Britain, is targeting the oil-producers for destabilization. Iran's "expansionist designs," Oman's "negotiations to allow the United States base rights," and Israel's "open talk of military intervention into the Gulf" add up to a "significant challenge to the oil-producing countries," he said.

Since then, with Iraq in the lead, the Arab Gulf states have acted to defuse the dangers of crisis in the Gulf. The most comprehensive statement was a letter to the editor of West Germany's *Frankfurter Allgemeine Zeitung* by the Iraqi ambassador to Bonn in response to an article by *Zeitung* military correspondent and International Institute of Strategic Studies member Adalbert Weinstein which had called for NATO preparedness in the Gulf.

"What has NATO got to do with oil?" the ambassador wrote. "All responsible people should act with resolve against the danger which many—including Weinstein—cause for international relations when they want to launch military crises instead of solving economic problems. Strategic fire-brigades, Atlantic armies or marine forces deployed in the Indian Ocean—to protect the oil fields?"

"My country, for example, is working intensively to achieve a new world economic order in which all nations can use materials and products in a way that is just for all. I think that such concerns should be enriched by worldwide initiatives and discussions. Despicable sabre-rattling such as that coming from Adalbert Weinstein ought to be ruled out."

Iraq has also circulated an official government

Arab states harbor any notion, policy or practice of discrimination on the grounds of creed, color, or ethnic background. Discrimination does not only run against our policies, interests, and principles, but also against the ethical and moral values of Islam that lie at the roots of Arab civilization. Any attempt to project sanctions, as if intended against people of the Jewish faith or persuasion, is not only untrue but it insults the humanist content of Arab nationalism and the Arab national character.

I have dealt on some problematic aspects of our relations because we are eager to develop and nurture further the friendliness between our two peoples. Only when we are conscious of the problems are we able to realize the potential for achievements. Relations between our two peoples have been, in many instances, close and indeed intimate. The pioneering experience of building this great country has been a source of inspiration

to the various anticolonial struggles in the Arab nation. The thrust for an integrated society, irrespective of race, religion or color, has been an example of sociopolitical humanism worthy of study and emulation. That is why at times we are surprised that price is a collective decision by members of OPEC which include Arab oil-producing countries but which are not exclusively Arab. This fact is known but the way it is projected smacks of a deliberate attempt to deflect the objective study of energy problems into a condition where "the Arab is made the scapegoat" and the energy problem "becomes a crisis."

Why is this being done so systematically and deliberately where as you know that the economic opportunities provided to the United States in the field of trade, investment, commerce, telecommunications have been made available and many of our markets accessible. Why

is there this continued attempt to assume that we are in any way attempting to "blackmail" when in fact we seek to synchronize our economic and financial policies to the legitimate quest for stability and progress in economic relations?

UAE Oil Minister: we will produce oil, but peace must be achieved

Last week a meeting of representatives from Europe and the Arab world held a conference in Rimini, Italy, on "Europe and the Arab world." At that conference, the oil minister from the United Arab Emirates, Mana Saeed Oteiba, delivered a speech which was the high point of the meeting. Here are excerpts:

Within a few weeks the Arab gulf states will meet to prepare for the
Continued on page 38

proposal to its Arab neighbors in the Gulf for the formation of a "joint Arab force" to neutralize the threats from Oman and Iran. According to a report in the Oct. 5 *Christian Science Monitor*, this proposal was behind the tour of the Gulf made by Iraqi Defense Minister Khairallah. A joint Arab force is only phase one for a "regional security pact" comprising Iraq, Kuwait, Saudi Arabia, the United Arab Emirates, Bahrain, and Qatar.

Those European military strategists informed of the Iraqi Defense Ministry proposal estimate that the plan means a Soviet and/or Soviet-European "nuclear umbrella" over the Arab oil-producing states, given Iraq's close ties to both the Soviets and the French. Any NATO move into the Gulf would thus cross the threshold of a nuclear shoot-out between the superpowers.

Taking on the Muslim Brotherhood

Since the end of September when Iran's rulers threatened to destabilize Gulf governments, the Arab regimes have for the first time exposed the threat that Khomeini represents and have taken effective security measures.

One newspaper in Bahrain has editorialized that Iran is "using a pro-Palestinian cover but is bent on destabilizing the regimes of the region, which will only

reinforce the Zionist forces." Official Iraqi government papers have called Khomeini "the new Shah." Kuwait's *Ar Rai Al Aam* last week attacked the Iranian government for trying to "establish an empire through Islam and to rob the Arabs of their religion."

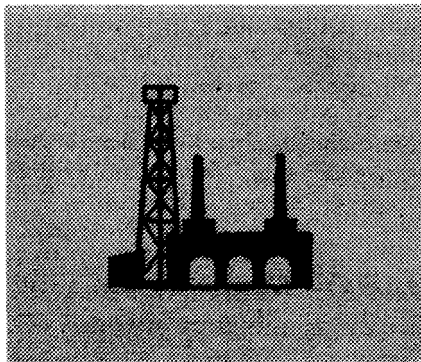
These comments converge on the evaluations of Khomeini made by this publication in reports throughout this year.

During the week of Sept. 24, the governments of Kuwait and the United Arab Emirates expelled dozens of Khomeini agents from their countries, including family members of ayatollahs close to Khomeini.

When destabilization moves peaked against the nation of Bahrain, the entire Arabian peninsula rallied to its defense. In quick succession, the Iraqi defense minister, the foreign minister of Saudi Arabia, the commander of the Kuwaiti Navy, the chief of Kuwaiti security, and several other Arab delegations visited Bahrain to demonstrate their support against the Iranian threat.

During the same late-September period, almost every Arab Gulf country attacked Oman's proposals for Arab cooperation with NATO to "protect" the sea lanes in the Gulf.

—Mark Burdman



Arab offers continued

coming dialogue with the European Economic Community. I will just make clear some points on the main issues that will be discussed.

1. Trade: the Arabs need a liberalization of the trade with the EEC. We are not just producing oil, we also are producing petrochemicals and gas and this trade should be based on "laissez passer."

2. The Gulf states have industrial plans for many sectors; we need

markets. Europe has markets and probably similar production projects so we need to coordinate to avoid a common loss. Europe is now importing oil, in a few years it will import many other products. We have enormous common interests, industry, agriculture, communications, etc. We have deserts, Europe has agricultural lands. We need water. It can only come from desalination.

3. The oil aspect is the most important. We need someone that buys our oil. We cannot drink it. Our Western friends know that we want to produce at reasonable prices. Our present production is much higher than internal consumption, so we have the problem of having surplus money that we now put in banks with interest, but we want to invest. ... We do not want to negotiate prices and quantities for reasons of national sovereignty. The time when single industries were exploiting our resources is coming to an end. We want

relations among equals. Prices can be discussed only if the EEC wants to discuss its prices. ... We have to look for a plan for the future. A new world economic order is needed. The modern European technology is necessary to develop our countries, to increase the standard of living, to process raw materials.

There are very many problems that can be solved in any field. This effort occurs between two very old cultures. We are in a very important country, which produced an important culture for the whole world.

4. But there is the political aspect which is even more important. If there is no political agreement there can be no economic agreement. These are two aspects of the same problem. Europe has to understand our problem and consider our stand. We want a just solution to the Palestinian problem. We are asking the Europeans to participate in finding a solution with morality to the Mid-

Who is making oil prices skyrocket?

The governments of Great Britain and the United States are cheerfully predicting a new oil crisis that will force a slowdown of the world economy. Unlike the outlook of leading OPEC moderates and Mexican President Lopez Portillo, the Anglo-American oil interests have announced loud and clear *their* intention to use their leverage in world oil markets to drive up the price of oil to force . Their purpose? To force austerity on the world economy and ruin the efforts of the Europeans and their OPEC partners to reform the troubled Bretton Woods monetary system.

According to the *Washington Star* Oct. 10, industry sources estimate that up to 25 percent of all oil traded on the world markets is substantially higher than the average \$20.48 price for OPEC crude. The article asserts that given this new reality, OPEC prices "mean less and less these days" in calculating future fuel costs. With a

two-tier pricing system presently operative within OPEC by which Saudi crude sells for a lower price than that of other cartel members, the *Star* states that there is not a third tier of even higher costs prompted by a high volume of short-term speculative buying and selling on international spot markets and third party sales between oil traders and the multinational companies.

Oil sources indicate that OPEC will most likely have no choice but to raise its prices at the mid-December price-setting meeting, if the current speculative spiral continues. This week Mexico and Kuwait enacted a \$2.00 a barrel hike in its crude. Sources in Mexico City say the action was necessary to forestall the use of Mexican high demand oil in the speculative markets. Another OPEC price hike, no matter how high, can be expected to elicit cries of "greedy" OPEC.

This week British Petroleum released a report entitled "Oil Crisis—Again?" BP declares that the "energy crisis is here, we have to choose between foregoing economic growth or starting to grow without more oil." The *Financial Times* Oct. 9 also quotes British Prince Charles urging greater restraint on oil consumption. The BP report especially criticizes the United States for its "over-consumption" of oil, echoing a recently released study from the Ford Foundation enti-

east conflict. We are asking that Europe recognize the Palestinian people. We are ready to give all the oil that is necessary, but peace has to be reached. The region is inflammable. If the region explodes, there will be no oil for anyone.

Saudi Foreign Minister: need for new int l economic order

These are excerpts of a speech before the United Nations General Assembly's 34th session by Saudi Arabian Foreign Minister Saud al Faisal, Oct. 4:

As the kingdom of Saudi Arabia establishes its economic system on rational Islamic bases, it works diligently to incorporate these concepts in its international economic policies. It therefore endorses the system

of free enterprise and rejects intimidation, exploitation, and blackmail in all their forms.

In its diligent endeavor to contribute to any international effort towards achieving stability, Saudi Arabia reiterates its hope and desire for establishing a new international economic order more conducive to bringing about equity and respect for the rights of both the developed and developing countries, and to provide the necessary means of establishing a dynamic and balanced relationship between economic growth and political stability in all nations, particularly in the developing countries.

Accordingly, the kingdom of Saudi Arabia spared no effort in achieving this objective. In all international forums, it has pursued, and is still pursuing this objective, hoping that the dialogue would be in the same constructive spirit that prevailed in the previous special sessions

of the General Assembly, and the Paris Conference on International Cooperation, as well as the United Nations Conference on Trade and Development held recently in Manila. At this point, I would like to emphasize that my country is prepared to take part in any international effort to resume the dialogue in these fields in accordance with the aspirations of the members of this organization....

Our interests demand of us to evolve a formula that aims at cooperation and succeeds in breaking the vicious circle. It calls upon us to acknowledge that the attainment of desired economic goals of progress and prosperity for the international community and justice and equity for the developing countries in particular is a joint responsibility that involves everyone.

In this light, it should be admitted that the voices that are intermit-

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tled "Energy: the Next Twenty Years," which calls for belt-tightening in the United States because of rising energy costs.

Former Department of Energy Undersecretary John O'Leary is also featured in a newly inaugurated column in the *Financial Times*, "The Oil Shortage Column" predicting that oil prices will climb to \$40 a barrel by 1985.

As with the oil crisis of early 1979, today the British and the multinationals are again provoking a new price spiral. This week the British National Oil Company raised its prices on advanced sales above the \$23.50 a barrel ceiling. Then Mexico and Kuwait raised prices.

According to the *Petroleum Intelligence Weekly* of Oct. 8, a number of multinationals have begun to tack on premiums of up to \$8 a barrel in third party sales—sales of oil between oil companies and traders. *Le Monde* Oct. 9 reports that these premiums are being applied by the oil companies because of their anticipation of another OPEC price hike. Moreover, *Le Monde* reports that Shell, Exxon, and Gulf are known to have been purchasing Iranian crude on the spot market at prices as high as \$36.50, which has contributed to the current pricing spiral in the international markets.

The noted Mexican columnist Manuel Buendia in *Excelsior* Oct. 10 attacked Iran for feeding the specu-

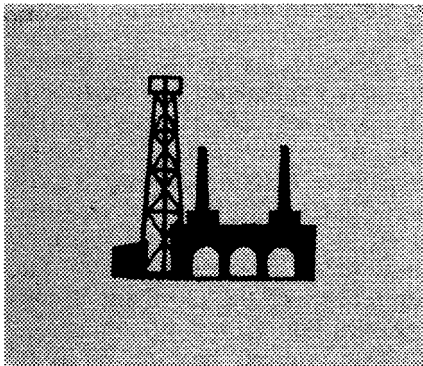
lative pricing spiral. Mexico has repeatedly stressed it will not sell oil on a spot basis, in order to delimit speculation.

The Iranian regime of theocrat Ayatollah Khomeini on the other hand, has admitted to selling up to 10 to 15 percent of its oil exports by means of spot sales. Iranian Deputy Economics Minister Ebrahimzadeh made this fact public last week after a seminar of the Revolutionary Council on economic and oil policy.

Last week, speaking at an OPEC-sponsored seminar on future world oil markets in Vienna, British Energy Minister Howell stated that a new oil crisis is "not possible but probable." He warned of future shocks to the world economy due to the increasing instability of Mideast oil. Howell was referring to the instability in Iran since Khomeini's rise to power and the pressures his regime has exerted on the region.

What Howell, of course, did not say is what this magazine has repeatedly reported; through numerous conduits such as the Bertrand Russell Peace Foundation, it is the British that control vast segments of the Iranian regime, particularly in the oil-producing Khuzistan region, where a terror wave at oil installations has recently erupted.

—Judith Wyer



Arab offers continued

tenly raised that accuse the members of the Organization of Petroleum Exporting Countries for the fluctuation and disarray in the international economy are far removed from the truth. As a matter of fact, energy constitutes only a part of the world economic system, and even at that, the OPEC countries have assumed

and still are assuming their full responsibilities in this respect. The industrial advanced countries, both Western and Eastern, should also shoulder their full responsibilities toward the world economy in general, and the developing countries in particular.

Iraq Foreign Minister: call for an international development fund

Below are excerpts of the speech delivered by the Iraqi Foreign Minister Saadoun Hamadi last week at the 34th session of the United Nations General Assembly:

With a sense of responsibility, Iraq took the initiative of proposing the establishment of an international

fund to assist the developing countries in financing the effects of inflation, a fund to which the developed countries, regardless of their systems, would contribute to the fund on the same basis....

We wish to reiterate our firm position that whether inside the United Nations or elsewhere, problems of energy should be appreciated within a comprehensive framework designed to tackle all principal problems of international economy... in this context of the international economic order.

All attempts to use the energy problem in order to threaten the developing countries have thus far met with failure, because the developing countries have maintained their unity and determination, to adopt a comprehensive approach in all discussions of international economy.

Lopez Portillo: new era of U.S.-Latin relations a 'categorical imperative'

A new era in relations between the United States and Latin America is a "categorical imperative," Mexican President Lopez Portillo declared before Latin American heads of state in Panama Oct. 1. The hour has come, the Mexican leader stresses for Latin America to finally eliminate all vestiges of the postwar "neocolonial" system—meaning wiping out "injustice and underdevelopment" and removing "military enclaves" like the U.S. bases at Guantanamo and in Panama. Latin America will no longer be anyone's "zone of influence, sphere of strategy, or area of defense. No one can assume the role safeguarding our sovereignty but ourselves."

If it wants to live in harmony with its hemispheric neighbors in this process of development, the United States should return to the "genius of its Founding Fathers" in foreign policy, said Lopez Portillo, and end nearly a century of "imperialist" outlook toward its neighbors.

Carter's 'genius'

President Carter answered Lopez Portillo's call for the United States to act on the basis of "reason," not might, the next day. Carter announced the formation of a 100,000 man military strikeforce that would be prepared to intervene in the Caribbean should Washington perceive a threat from Cuba.

The reaction from Latin America to Carter's announcement has been hostile. Addressing a crowd of 400,000 upon his return from Panama, Lopez Portillo called upon the United States to end all "military enclaves" in the area. Four Caribbean nations, Jamaica, Grenada, Guyana, and St. Lucia, issued a joint communique over the weekend rejecting Carter's announced remilitarization of the region. "No decision can be taken affecting the people of the Caribbean region without proper consultations with and full involvement of the sovereign governments which represent the people of the region," the communique stated.

According to the Mexican press, even Venezuelan Minister of Mines and Energy Calderon Berti cancelled a trip to the United States in protest of Carter's military

strike force. This action is one indication of the general anger and opposition to Carter's diplomacy throughout Latin America. Under the present Herrera Campins administration, Venezuela has been counted on as a reliable U.S. ally.

In Panama, Lopez Portillo's challenge to the United States to return to the "genius of its founding fathers" reportedly left Vice-President Walter Mondale pale and quiet. Washington can no longer doubt that the Mexican head of state is taking the leading role in shaping policy for the entire southern continent. As Pena Gomez, head of the Dominican Republic's ruling Revolutionary Party, said upon his return from the Panama ceremonies, that the "Mexicans are emerging as a nation with overwhelming strength" is becoming a source of pride for Dominicans and for all of Latin America.

The battle for development

Addressing the Latin American delegations to the United Nations in a brief planning session before his major energy address Sept. 27, Lopez Portillo described the present strategic configuration in Latin America as a three-level battle. The Nicaraguan Revolution exemplifies the battle to establish the internal conditions for development of the population, he said. Establishment of full Panamanian sovereignty over the Canal Zone, a process moved forward with the implementation of the Carter-Torrijos treaties Oct 1, exemplifies Latin America's fight against external pressures, a step toward the decolonization of Latin America from the "imperialist forces of the continent." From that base of strengthened sovereignty and development at home, Lopez Portillo told the ambassadors, Latin America is moving to resolve the "universal contradictions" in the battle for a new world economic order, concretely expressed in Mexico's proposed Energy Doctrine which calls for oil-for-technology exchanges.

"Against internal forces, against external forces, and to put order in all of humanity's affairs, Latin America is carrying out its efforts, fulfilling in this manner the imperatives of its unity and its reach," the Mexican President concluded.

U.S.-Mexico summit: 'brutally frank'

A contentless reaffirmation of good feeling between Mexico and the United States was how most U.S. press covered the summit meeting between Mexican President José López Portillo and U.S. President Jimmy Carter. But the Washington, D.C. event was in fact neither contentless nor particularly warm.

For the first time in the history of such talks, the most detailed "inside" view of the summit which took place on Sept. 28-29 was provided by one of the protagonists—not the press and their "knowledgeable sources." In conversation with reporters aboard his airplane, Quetzalcoatl I, and in an address delivered to almost half a million Mexicans gathered in Mexico City's central square for his return, López Portillo launched a new era in "open diplomacy."

Energy remains a primary point of disagreement between the two nations, despite the signing of the long-delayed natural gas deal. Mexico is determined to develop its energy resources only as fast as its domestic and revenue and consumption needs require—except as an international order of the kind proposed by López Portillo at the United Nations on Sept. 27.

Nor is Mexico very happy with Washington's insistence of "appropriate," "small is beautiful" technology aid. "Think big" is López Portillo's oft-repeated slogan.

López Portillo had hardly left Washington when the simmering tensions between the two countries flared up anew. The *New York Times*, citing statements from the National Security Council's Guy Erb, claimed that Mexico had agreed to discuss compensation for alleged damages to Texas from the Ixtoc-I oil spill. The reply from Mexico's Foreign Relations Ministry within 24 hours: a "baseless" distortion of Mexico's agreement to discuss environmental issues "for the future."

During his plane flight and upon his return to Mexico City, López Portillo had this to say:

On the talks with Carter: "Frank, at times brutally frank."

On a North American Common Market: "We have already stated that we have no interest in this ... and even less as a result of obligations concerning energy (presented by López Portillo to the U.N.—ed.). At that time we said: we do not believe in bloc solutions to resolve energy problems. Faced with a possible U.S.-Canada-Mexico Common Market, we prefer an energy supply system inscribed in a world approach. We have an obligation to explore a world system and not a bloc system."

On wielding the "food weapon" against oil producers: "The alternatives are very simple: either we put the world in order or disorder. Of course, an oil producing nation which is also a food producing country like the U.S. has not yet decided to use food as a weapon. But at a certain moment it could do so. And what is gained? We disorder the world even more. The cry of many in the U.S. is: 'So we won't sell wheat.' And where will this end up? This is the escalation of violence which our (energy) proposal (to the U.N.) is designed to avoid."

On "illegal aliens": "Upon the passionate urging of our Chicano brothers, we told the President that we viewed the denial of human rights in education, in health and in legal protection for Chicanos with great concern; that we did not accept the propriety, between civilized peoples, of confusing immigration rights with labor rights, and much less, with human rights.... We repeat here: it is no crime to look for work. The man who looks for it is only asking for the opportunity to be a man in all his potential.

"This is what I said (in Washington) and now I add: It must be our nationalist purpose to create the opportunities so that all Mexicans have work here.... This is the imperative which all of us Mexicans must fulfill....

"The problem of jobs in Mexico is that people are not trained. That is why we have insisted so on training."

On joining the General Agreement on Tariffs and Trade (GATT): "I told Mr. Carter, we are considering this in our study groups. That is why I would prefer

Carter waves the 'big stick'

In an address to the New York-based Foreign Policy Association Sept. 28, Secretary of State Cyrus Vance enunciated a six-point strategy toward Latin America. He called this a "new direction" in U.S. policy toward the hemisphere based on "shared responsibility, not domination or dependence—on justice and accommodation, not confrontation."

But the policy Vance enunciated—and the policy put into motion around the so-called Cuba crisis—is anything but "accommodating." Vance made clear that Washington will not tolerate challenges to U.S. political or economic domination of the hemisphere. As the first point, Vance said, U.S. economic relations with Latin America will be based on a "stronger, better capitalized ... more responsive" International

not to discuss GATT with you at this time... The question is for us to establish a development model organized for export, both inside and outside the country... We are not going to commit (economic) suicide. We are not going to have an industrial development program and then a system which would negate it in international trade."

On the International Monetary Fund: "On many occasions, justice for the Mexican peasant, for example, is not (to be sought) in Mexico, but in the IMF and its system, which we are dedicated to modifying."

On oil prices: "How do we know what the price of a barrel of oil is if we do not know the price of a tractor?"

On Soviet troops in Cuba: "We reaffirmed the Mexican position... Support for the SALT treaty. But we had the occasion to state there as here: Mexico, in accord with the principle of nonintervention, does not admit (the right) to military enclaves anywhere in the world. For us it is just as serious that there are U.S. troops in Cuba as that there are Soviet troops in Cuba; because we do not want foreign troops in Mexico, just as we do not want to see a situation of foreign troops in the United States.

We want equal treatment for all..."

On the Ixtoc-1 oil spill: "I wish to repeat here, face to face with my people, that when indemnification was discussed for possible, eventual damages from Ixtoc, we said the following: We do not recognize as law an argument which is not general... If they did not

recognize their responsibility in the salinization of the Mexicali Valle, with what right do they ask us to recognize such a law now in the Gulf of Mexico?"

On nuclear energy: "There is then the area of production of energy from other sources (than oil), fundamentally nuclear... We now have in Laguna Verde (Mexico's first commercial reactor complex, due to come on line in 1982—ed.) an energy development facility which it fell to me to initiate when I was head of the Federal Electricity Commission... The important thing about Laguna Verde is that there is professional employment for a new type of technician which the country requires..."

On the U.S. presidency: "The problem is that the President of the U.S. is a world figure. Any pre-electoral process is important to the whole world and, unfortunately, (in) U.S. pre-electoral politics ... the President is already playing electioneering tunes. And the result of this is ... a tremendous distance between the functioning of a President of the U.S., which is universal, and the selection processes, which are parochial... Thus, since the selection system is not appropriate to his function, everything gets distorted along the way. When I have to meet not with the President of the United States, but rather with a precandidate of a political party, that's extremely serious."

On the possibility of a U.S. oil-grabbing invasion: "For that to occur, there would have to be a total rupture of the international order. This precondition would be the great drama of humanity."

Monetary Fund. Bilateral U.S. aid will focus not on capital-intensive development, but on meeting "pressing daily needs of people in poorer countries."

Vance then put forward his strategy to prevent another Nicaragua, where U.S. attempts to maintain the client Somoza regime, a paradigm of U.S. "imperial" policy, and to impose a "moderate solution" by military force were defeated. Vance railed against the alleged attempts by Cuba to "exploit internal tensions," and said that the United States will not permit any "outside interference" in its own backyard.

The "new direction" in U.S. policy is a return to gunboat diplomacy and the "Big Stick," using, as in the early 1960s, the pretext of a "communist threat" to militarily impose IMF austerity on the continent. Under the rubric of securing the U.S. against the possible "threat" of Cuban-Soviet invasion, Washington has formed a military "permanent, full-time Caribbean Joint Task Force" stationed in Florida's Key West, and is staging armed maneuvers in and around the U.S. military enclave at Guantanamo Bay,

Cuba. President Carter, announcing the creation of the Task Force in his Oct. 1 national television address, said its purpose is to "respond rapidly to any attempted military encroachment" in the Caribbean region.

Simultaneously, Washington is "sounding out" Latin American governments on the creation of a permanent "interamerican peacekeeping force," to intervene anywhere in Latin America where there is a perceived threat of "outside interference." Washington has been advocating a military standing army—modeled on the strikeforce used to squash the 1965 Dominican Republic popular uprising against the repressive Trujillo regime—since June. Cyrus Vance then proposed a joint Latin American military intervention in Nicaragua to prop up the crumbling Somoza regime. The proposal was shot down by Latin America, which viewed it as a threat to national sovereignty. The U.S. may formally propose an intervention force at the upcoming assembly of the Organization of American States in Bolivia later this month.

'In Panama, founding fathers are winning'

Following are excerpts from the speech delivered by Mexico's President José López Portillo at the Oct. 1 celebration of the restoration of Panamanian sovereignty over the Panama Canal.

Mr. President of the Panamanian Republic; Mr. Vice-President, representing the President of the United States; Presidents and representatives of brother nations and observers; friends and Panamanians:

I speak in the name of all the heads of state of Latin America. ... Today this canal, the privilege and the pain of this isthmus, begins to belong only to Panama as it rightfully must. We commit ourselves fully to securing the triumph of this cause....

This celebration takes place among Americans, among inhabitants of what was once known as the New World and which came to call itself the Continent of Hope.

Since its origin, (the canal) has reflected the division of the old dominions ... now between North and South. One part has prospered on earth. ... For the south, for us, members of "Magna Patria," survival and progress under the colossus has not been simple. Those of us who were able to eradicate feudalism still suffer the consequences of a delayed, rickety and dependent industrialization. Those of us who have reached certain stages of modernization are still far from overcoming marginalization and are still beset by inflation, the energy crisis, unemployment and our chronic foreign trade deficits....

We joyously celebrate the end of the humiliating injustice that split Mesoamerica and that the legitimate flag, the Panamanian flag, now flies over the canal.

We are realists. We know that politics, when faced with the desirable, is frequently the art of the possible; and we know that there are still many years and requirements ahead. ... Full autonomy over the canal has not yet been granted; but it is a step in the right direction. A military enclave still exists, the result of a unilateral interpretation of a biased and therefore partial neutrality. But it was what was possible, what was reasonable; that is why we recognize it.

The spirit of our Founding Fathers

What is important now is that the Americans of the north and of the south must use this first step to forge a new continental spirit.

This spirit will be good, if the North Americans turn the genius of their Founding Fathers into a categorical

imperative. For example, George Washington, who said: "Make a pact of respect and justice with all the nations of the world. Cultivate peace and harmony with them all... Nothing is more important than avoiding permanent deeply rooted antipathies with other nations." And Lincoln, who said: "No man is good enough to rule over another without his consent"; and Juarez, that "men are ennobled by the recognition of their own errors, and among individuals, as among nations, respect for the rights of others is peace." This includes peace of one's conscience which cannot rest if "peace" is imposed by force....

We will not be the objects of neocolonialism, nor the arena of foreign hegemonies; no one will do for us what we do not do for ourselves; no one can claim for themselves the right to "guard" our sovereignty. No one but ourselves, and ourselves alone.

Let's understand once and for all that, disunited, we shrink the economic and political expression, the culture and creative capacity, of our continent. Either we unite and order ourselves, or order will arrive by the tortuous routes of economic and/or political hegemony, by groups with armed and financial power under slogans which do not belong to our heritage. The end of injustice and underdevelopment cannot be put off any longer, at the risk of seeing our continent in flames.

It would do little good to fight foreign intervention and pressures if, in our own nations, disunity, repression, poverty and inequality increase. To go forward necessarily implies overcoming our own contradictions, in order to become what each one of us is and what together we can be.

Nicaragua: the archetype overthrown

We have recently lived through an important experience, also characteristic of our time: the revolution of popular power in Nicaragua. More than the fall of a political regime, it was the overthrow of an archetype of exploitation, authoritarianism and dependence.

A sad caricature of Latin America which has circulated for decades throughout the world was buried in Nicaragua. In Panama, the wretchedness of colonialism and the abuse of force are being buried....

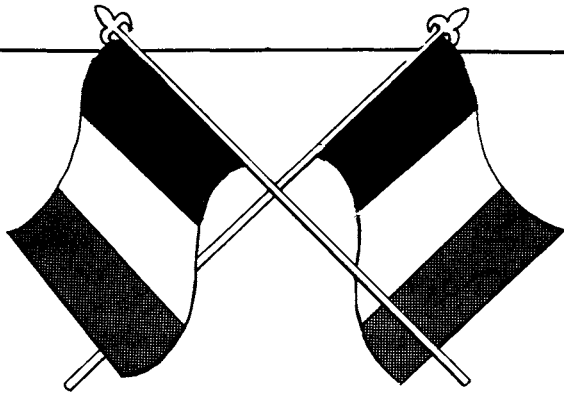
In Nicaragua, in Panama, in America, our Founding Fathers and our sons are winning.

The new legions of youth of all America, from north to south, today demand coherence and plans and action from us. We can respond to them; we must comply; we will not deny their needs, we will not shrink from their demands, we will not wipe out their hopes, we will not defraud them, but will earn their respect, respecting them and ourselves; we will guide into mature channels their noble and infinitely vital energy for change; we will all be the craftsmen of our common destiny.

Viva Panama!

Viva the youth of America!

Viva America!



The direction of French policy

In early October, the government and leading policy makers of France extended a new invitation to the United States to join with continental European efforts to bring into being a new monetary system and replace the bankrupt Bretton Woods agreements that created the International Monetary Fund after World War II—before it is too late. The point was most cogently argued by François Donati in the French financial daily *Les Echos* (*Executive Intelligence Review* reprinted Donati's article last week). Donati noted that the remonetization of gold, as currently being undertaken by the European Monetary System countries, would provide the only means for wiping out the enormous overhang of unpayable debt internationally and thus restarting the world economy on a productive basis.

Unfortunately, the U.S. Carter administration is moving along the exact opposite course of these French and other European initiatives for a new monetary system. Carter is explicitly adopting the "British model" of economic policy—a credit squeeze to wring the last drop of productive power out and produce an economic depression.

Jacques Cheminade's paper on the "American System" tradition in French political economy, which *Executive Intelligence Review* publishes here in its third and concluding installment, has as much relevance for Americans today as for the French. In the first two parts, Cheminade recounted the story of the Renaissance and 17th century antecedents of the American Founding Fathers. In part three he tells the story of Chaptal and Monge, collaborators of the American Revolution, and the way they developed scientific education as the prerequisite to industrial capitalist progress.

Chaptal, Monge and Dupin relayed U.S. first Secretary of the Treasury Alexander Hamilton's concepts to the great German-American thinker Friedrich List, who in turn collaborated with the American school of Mathew and Henry Carey. What all of these thinkers had in common was a firm commitment to government-fostered deliberate technological progress as the basis of industrial capitalist development, and a hatred of the various "free trade" or "free enterprise" slogans used by Britain to crush such progress in rival nations.

Cheminade wrote in the previous installment, "Chaptal, chemist, industrialist and statesman, was a close associate of the American Revolution leaders and was twice (in 1792) invited to an official tour in the United States by George Washington. . . . Chaptal's primary commitment was to set in motion economic processes ruled by (French scientists) Carnot and Monge's principle of the highest ratio of energy transformation.

"(Chaptal) links the relative superiority of industry over agriculture in the production of a higher surplus value to the necessarily urban location of industry, an environment 'where knowledge is shared and human resources continuously multiplied.'"

The tradition of Friedrich List

French political economy from Jean Bodin to Charles Dupin—part 3

The mediation for development, says Chaptal following Leibniz and Carnot, is the use of increasingly efficient machines, efficiency being measured by the free-energy ratio of the functioning machine. Well aware of the need for polemics, he mocks the fears of his ecologist-romantic contemporaries in the following terms:

Unenlightened people have always feared that the use of machines would rob most industrial workers of their jobs: the same fears were experienced at the time of the introduction of the plough and of the printing presses. But, if we go back to the origins of the mechanical arts and follow their progress up to our own time, we can see that the hand of man has always been equipped with machines which underwent a continuous perfection, and that the prosperity of industry has always depended on these progressive improvements. The reason is that machines, by reducing the cost of manpower, diminish the cost of the product, and that consumption increases, because of the low prices, proportionally more than manual labor is reduced. Besides, by increasing production, more subcontracting activities are generated, which demand manpower and employ more men than could be hired in an unmechanized plant, which would necessarily be of a lesser size.

It is to foster such economic growth against France's London-led enemies that Chaptal enforced, following Sully, Laffemas and Colbert, a "flexible protection":

A good customs' legislation is the true protection of the agricultural and manufacturing industry; it means to increase or reduce taxes according to circumstances and needs ... protect nascent industries through prohibitions, so as to avoid confrontation with foreign competition until national industry has reached such a degree of perfection that it can grow independently, and finally enrich that industry with labor power which is, as I say many times, the main source of wealth...

In this sort of hierarchy of all national imperatives, industry occupies the first place ... The merchant gives no value to the goods he trades, whereas the manufacturer creates almost all the value won by the raw material on which he works.

Chaptal's conclusion is that there are no given medicines or magic formulas to establish the level of protection for the national industries, but that the customs policies depend primarily on the *political intentions* of France's competitors and on the relative advancement of foreign industries. In such an approach, the customs tariff is a key political element in the process of industrialization, which is primary—exactly the conception of Friedrich List. The first industries to be protected and promoted through a state-controlled system of bonuses are, in Chaptal's terms, the *seminal industries* (industries fécondantes)—those industries whose role is primary in the process of higher rates of energy transformation and transmission through the economic whole.

The first task of a competent Minister, says Chaptal, is to plan the development of such seminal industries and organize around them infrastructural networks—Trudaine's conception again. This is also the conception that should guide the development of nuclear energy today. Fusion, the most advanced aspect of the process, should have priority in terms of research and investment, but fusion cannot work in itself. The support of fission and fast breeder energy production is crucial, if only to shape up the world economy for the future use of fusion. Nuclear energy development is not a fixed goal, but a whole seminal process. Similarly, nuclear energy cannot be developed successfully if only produced for one part of the world (the advanced sector) and not the other: the process of development cannot be but whole-encompassing.

Making his approach quite explicit, Chaptal polemicalizes against those who want to establish a "golden number" quantifying the best level of absolute protection. Once more taking economic motion as primary, Chaptal explains that protection cannot be reduced to a fixed level of customs taxation, such as 15 percent. Arguing in Leibnizian terms that motion cannot be located in an unvarying substance (the Cartesian "flaw" of Forbonnais himself), he attacks such a conception of "protection" as dangerously inadequate.

Education of labor was the determining point in Chaptal's industrial policies, together with supply of cheap energy. He located the main French problem in those two interconnected features: a too high cost of energy because of England's Malthusian monopoly on

the technologies of coal extraction, and a still too inexpensive manpower in France itself because of the acceptance of low wages by peasants coming to the cities. Giving the best lesson that present day capitalists can dream of, Chaptal emphatically stresses that only high wages can determine industrial development: a low-paid manpower does not generate labor power and therefore does not induce the industrialist to mechanize his firm, which in turn reduces his actual rate of profit. Low wages, in Chaptal's terms, put industrialists under merchants' control.

Industrial education

The founding principle of List's industrial Zollverein was the industrial education of the nation: energy transformation (i.e., "protected" industrialization) is and can only be achieved through the perfecting of creative mentation to continuously raise the cognitive power of labor. To organize and direct such a process, List conceived of a centralized educational institution following the original conception of Monge, and later of his students Carnot and Dupin. This was the notion embodied in the original *Ecole Polytechnique*, before Napoléon's 1804-1807 reductionist blunders: creation of an educational environment to foster scientific discoveries for industrial practice and irradiate progress throughout the whole nation from the standpoint of the higher hypothesis. It was from the principle of that higher order that the education of the whole nation was to be organized to build up the Zollverein conception on its necessary social basis.

Here again, the point is that Monge's approach to science was not that of some abstract game, but determined by his commitment to progress. His purpose was to develop French industry through the use of general scientific method adequate to the different fields of technology. Descriptive geometry, the "theory of machines," physics and chemistry represented for him "not sources of study as such" but an approach to improve the general conditions of human life through the progress of industrial methods and utilization of energy sources to replace human physical force.

Monge, as proved by his conception of descriptive geometry, concentrated his work at the level of the higher hypothesis. What he accomplished was the transformation of a merely empirical graphic method into a new branch of geometrical science: extension of the restricted Cartesian geometry to a new order by an accurate representation of three-dimensional space-objects by two-dimensional designs, opening thus a new era for creation of machines and architecture. Monge was led to that conceptualization by his moral understanding of the need for a general, superior method subsuming all the apparently dissimilar processes used by technicians, so as to achieve the greatest productive efficiency. His accomplishments in infinitesimal and

analytical geometry as well as in the theory of machines and heat (later developed by Carnot as the laws of thermodynamics), were guided by the same principle: to master processes of development by focussing on their "productive generation" ("higher energy transformation" as represented by "projection" in descriptive geometry). This was made clear when Monge, teaching descriptive geometry at the Ecole Normale, refuted the Condillac approach peddled by one of his students on "the given logical order of geometrical elements" and proved instead that surfaces can only be classified according to "their *mode of generation*."

The perspective of technological development in which he placed his descriptive geometry is confirmed by a project he conceived around 1793 (he mentions it in the 5th section of his treatise on descriptive geometry) which called for the creation of schools for workers and artists who, from the age of 14 to 16, would be taught applications of descriptive geometry, physics, chemistry, morals and civics. Such schools would be opened in every important city in the country, so as to rapidly develop a highly skilled industrial labor force. This is what was later developed by Dupin as the Conservatoire et Métiers movement.

This same perspective was that of the Lafayette-Condorcet-Monge Société Patriotique, a Leibnizian "Society" sponsored by Benjamin Franklin whose political aim was to issue a constitution in the framework of which men would realize their freedom by organizing other men into progressive social and educational policies.

It was this same conception that generated the Ecole Polytechnique. Prior to and during the 1793 scientific mobilization, Carnot and Prieur de la Côte d'Or had often discussed the need for a single school of engineers which would embrace all the existing "corps" of the Army and State Administration. Four schools existed at that time: the military Engineering School of Mezières (where Carnot had been a student of Monge), the Châlons-sur-Marne School of Artillery, the Ecole des Ponts et Chaussées and the Ecole des Mines in Paris. The severe partitioning of all those different schools was obviously detrimental to all of them, and especially to that of Châlons, as the engineering officers were forbidden to communicate their conceptually more advanced knowledge to the artillery men who had to go to Paris to catch up with private lessons.

Lambardie, the head of the Ecole des Ponts et Chaussées in Paris (the successor of Trudaine the Elder) had been repeatedly pushing for a preparatory-type school where both civilian and military engineers would be taught "the general principles of sciences." Monge and Carnot supported this approach.

The commission in charge of working out the educational and organizational plan for the Ecole Centrale des Travaux Publics (as the Ecole Polytechnique was

first called) was selected among those scientists who had worked with the Convention's Comité de Salut Public and the members of the Comité d'Instruction Publique, where the best minds of the Leibnizian tradition were gathered: Monge, Bertholet, Chaptal, Lamblardie, Guyton-Morveau, Fourcroy, Prieur, Hassenfratz and Vauquelin. Their common conception was that all public services should intersect one another in their theory and practice; that they all require the same overall knowledge in graphic arts and science; and that such general studies "can only be carried out under the greatest scientific authorities, in the very center of the arts, and under the supervision of the most distinguished scientists."

Monge's cadre conception

Monge played the principal role in the founding of the School. "It was an eminently philosophical, eminently useful and eminently rational idea, that of giving each student in a public service a sufficiently general knowledge of all the other services," Charles Dupin exclaims, describing the Ecole as that of "Pythagoras and Plato."

National education, Monge was saying, should be oriented toward the kind of knowledge which forms the mind to exactitude, while giving a sense of the different magnitudes and their measurements" so as to hasten the progress of industry and consolidate the Republic. Jean-Baptiste Blot, Pasteur's future chemistry teacher and Monge's student, writes that the Ecole was founded "1) to train engineers; 2) to spread enlightened men among the whole society; 3) to arouse the talents which can advance science."

The key problem to solve, similar to the present day problem set to educators in the developing sector, was to accelerate the process of learning the higher scientific knowledge ("general instruction") to students of different intellectual and cultural levels, of which only one-third had really received high-level education. Monge solved this in the most brilliant and dedicated way, and thereby made it actually possible for the Ecole to get underway altogether, through his "would-be instructors" system. The 396 students admitted for the first time as a result of national examinations were divided into 25 "brigades" and given "chiefs of brigades," whom Monge selected from among the most developed and to whom he personally gave the most intense training—through a cadre school he directed and for which he worked day and night. The conception was that the "chefs de brigade" would be in a position to make sure that all students would move forward, by immediately helping those who would display any problem in understanding. This humanist concern for a true democracy was also reflected in the fact that the state provided the material means through which any qualified citizen would have access to scientific competence.

It was during those initial 3 months that Monge trained the would-be instructors through massive efforts. He was simultaneously teaching his descriptive geometry for the first time, giving a course every day, circulating manuscripts he had from Mezières and his notes on Bernouilli, Euler, Leibniz and Huyghens to remedy the lack of textbooks, creating wooden and stone models—always aiming at the best pedagogical results.

The founders of Polytechnique had insisted that the students should live in the best environment to develop their minds: outside the school, in Republican families all over the capital, where they would find moral backing and adequate material conditions. Prior to Napoléon's militarization of the Ecole, internal discipline rested on the chefs de brigade, not as watchdogs, but on the basis of their higher level of development.

Although Monge was personally attached to Napoléon, for whom he had conceived the Egypt campaign according to Leibniz's African development conception, he fought hard to defend the Ecole against the Emperor's attempts to water down the essential humanist plan of the institution. But unfortunately, Napoléon issued an 1804 militarization decree enforcing formal, bureaucratic discipline and requiring the students to pay an annual fee. The content of the teaching rapidly sank and courses were cut down, while grammar and liberal arts professorships were introduced. The 1815 Restoration government closed the school altogether for one year in 1816 and discharged all its students after a provocation bearing the pawprint of Metternich. Charles Dupin managed to have it reopened, but after that the original Monge conception was never redeveloped in its full implications.

Chaptal was the direct collaborator of Monge at the economic command of the nation until Napoléon's 1804 Empire turn and Austrian alliance. He describes his 1802 *Society for the Advancement of National Industry* as the necessary complement for Polytechnique at the point of transformation of science into industrial practice. Its aim was to close the gap existing between a scientific discovery, its application as a new mechanical process (Polytechnique) and its accomplishment as machines produced and working for mass production. In particular, bonuses were secured by the Society for industrialists willing to introduce new processes in their plants, such as steel-maker Poncelet in Metz, later a collaborator of Dupin.

Linked to the Society Chaptal also created the *Ecole Centrale des Arts et Manufactures*, so as to further organize "immediate connections between the scientist and the manufacturer."

To publicize the discovery of new technologies and their successful application to industry, Chaptal supported the launching of a new industrial press represented by the *Journal des Mines* (1705-1815), later to become the *Annales des Mines*, the *Annales des Arts et*

Manufactures, Le Métallurgiste and the famous *Moniteur Industriel* (also with support of banker Jacques Laffitte).

To foster the development of industry, Chaptal mastered the entire notion of "technology transfer," so important today for the industrial take-off of the developing sector. Defining himself as a follower of Colbert, "who had brought to France the Van Robais, Hindret, Huyghens and others," Chaptal organized a systematic government policy of confrontation with British Malthusianism (prohibition to sell machines abroad) through imports of British engineers and industrial discoveries to France. With government moral and financial support, French engineer Dufaud thus brought back to France plans of British machines and set up a big factory at Fourchambault, and the top British engineer Douglass was called to France and had a plant equipped with government funds to develop the technology of cotton mill and drapery processes. Chaptal later encouraged French industrialists Decretot and Ternaux the Elder to follow the way opened by Douglass, and soon the Douglass machines were used throughout the national territory.

To further such advancements, Chaptal's associates supported workers' educationals, as a means for, not the learning of fixed sets of behavior, but as the "development of industrial judgement"—the capacity to understand the basic scientific processes behind the design of a machine, and therefore to use the machine safely and productively. Chaptal comments that "apprenticeship should never be limited to one task alone, but should instead start with a general education applicable to all manufacturing and mechanical arts." For that purpose, he used the Conservatoire National des Arts et Métiers in Paris as a model for the provinces, and took advantage of the fact that Monge and Carnot had transferred to the Conservatoire most of the machines of the former Académie Royale des Sciences to avoid their being looted or destroyed in the storms of the Revolution.

It is from such a framework that Dupin started his own educational drive after the fall of Napoléon. First, Dupin and his networks, despite Talleyrand's London influence, managed to convince Louis XVIII to broadly continue protecting and promoting French industry against England. In this, Dupin was directly supported by Prime Minister Decazes against Rothschild's agent of influence Baron Louis.

The point that Dupin made, following Ferrier's and Chaptal's analysis, is that Napoléon Continental Blockade had been, for all its reductionist flaws, an overall economic success and had favored the industrialization of not only France, but also of certain large portions of continental Europe, such as Lower Saxony. A network of French-centered republican technicians was implanted in the European hinterland, forming the potential basis for List's Zollverein.

Decazes, a European ally of List's protector Wan-

genheim, reestablished regular exhibitions of manufactured products in France, with a bonus system for the best of them, founded general councils of agriculture, manufacturing and trade, and sponsored the teaching of sciences applied to the industrial Arts at the Conservatoire. It was Decazes who appointed Dupin as professor of Geometry and Mechanical Arts at the Paris Conservatoire.

Dupin, who started his classes in 1824, continuing them till 1854, addressed himself to an audience of literate laymen and in particular to skilled and semi-skilled workers. His idea was, through quantitative and qualitative expansion of the social base for industrial development, to reverse the monarchy's industrial orientation toward production of luxury goods, the pathetically famous "articles de Paris"—especially since Decazes' forced resignation following the 1820 assassination of the Duke of Berry.

Dupin's drive was to put the central conception of the higher hypothesis consciously into focus for the instruction of the broadest possible audience. In his speech, *The Influence of the Working Class on the Progress of Industry*, he defines his immediate goal as the raising of workers who know only the basic four rules of arithmetic up to the level of being finally conscious agents of industrial progress. To achieve this, he locates in each man a potential to be mobilized:

Nature limited the needs of man, but the creative power received by man from the Supreme Intelligence leads him to continuously discover and perfect: it is to that power that we owe the successive advancements in agriculture, trade, industry and in our whole civilization.

A key supporter of the Dupin approach was the Duke of La Rochefoucauld-Liancourt, a close ally of Franklin and Lafayette, who had been the first to create a School of Mechanical Arts and Manufacturing in his own Liancourt castle, and then founded a Practical School of Mechanical Arts and Manufacturing at Châlons-sur-Marne, basing the education of the workers on mathematics, designing and the analytical method, including Monge's descriptive geometry. Another collaborator of Dupin was the steel-maker Poncelet, who started a similar series of courses in Metz, a key industrial city of the time, from which the Dupin family also came.

Dupin conceived the Paris Conservatoire as the exemplary, seminal institution for the provincial schools. He was also aware of the necessity to create a link between Polytechnique and the Conservatoire movement, both to convey the higher conceptions to the Conservatoires from Polytechnique, and to stop short the developing "positivist" tendencies in Polytechnique, where the new politically isolated and militarily controlled students tended to see themselves as "great priests" of science, the absolute opposite of Monge's conception.

Following the Paris model, Dupin advised the provincial Conservatoires to organize exhibitions of machines and models so as to have in every city a *Museum on the Advancements of Industry*, where the arrangement of concrete scientific experiments would make the practical power of the higher discoveries sensuous to workers. A biographer notes "His conviction that the higher conceptions of science are linked to the perspectives most useful for the immediate progress of human society." Dupin was also a staunch defender of compulsory education provided by the State until the age of 14-16, this at a time when children from age 6 were bestialized in manual labor. His first classes in Paris brought an audience of about 500, to soon reach figures close to 1,000. His textbooks were translated and used

in the U.S., Germany, Spain, Italy, South America and so forth.

The key point is that Monge, Carnot, Chaptal and Dupin, as hinted by Poe in his *Purloined Letter*, were before anything else, before any predicate, organizers of the human mind for the development of reason. This is what was the notion of "industrial education" as later understood by List.

This Zollverein-Polytechnique conception of "industrial education" is what is still lacking behind the otherwise correct nuclear policies of the French government and the European Monetary System initiative of Giscard d'Estaing and Helmut Schmidt.

—Jacques Cheminade

U.S. Labor Party sues The New York Times for \$100 million

On Oct. 7 and 8, the *New York Times* published a two-part slanderous article on the U.S. Labor Party and its former chairman Lyndon H. LaRouche, Jr. Authored by veteran *Times* reporter Paul Montgomery on the basis of "investigations" conducted by him and Howard Blum, the *Times* article makes a particular point of suggesting that the Federal Election Commission seriously investigate any application for federal matching funds made on behalf of LaRouche's campaign for the Democratic presidential nomination.

The U.S. Labor Party responded immediately with an Oct. 7 release, reprinted below, announcing that the party would be initiating legal action against the *Times*.

The *Times*, however, would appear to be undeterred by the threat of a \$100 million lawsuit and the possibility of other suits filed by individuals and organizations mentioned in the *Times's* piece. On Oct. 10, the *Times*

featured "The Cult of LaRouche" as its third editorial. Summarizing the earlier series, the editorial concludes: "Fortunately, America's prized permissiveness has its limits. How the U.S. Labor Party trains militarily, deals with the tax laws and treats its members and alumni seem to be subjects for official inquiry. The party needs to be examined not for what it says or believes but for what it does beyond soliciting votes."

In late August, this magazine documented the *Times's* collusion in a project to publish a front-page slander of the U.S. Labor Party and LaRouche which was intended to trigger a Justice Department investigation of the party as "anti-Semitic" and "Nazi."

After first farming out the slanders to a small east side New York paper, *Our Town*, the *Times* then decided to go ahead itself, because of European moves toward a gold-based monetary system.

The U.S. Labor Party announced today that it is moving immediately to sue the *New York Times* for \$100 million. This action has been triggered by the publication of a page-one farrago of lies and gross distortions in the early edition of the Sunday, Oct. 7 *New York Times*. In a related action, the party will file a complaint against the *Times* and the *Times's* accomplices with the Federal Election Commission.

The party's officials also stated that they expect other legal actions to be initiated against the *Times* because of the libelous piece published today. The officials reported they had been in communication with Democratic presidential candidate Lyndon H. LaRouche, Jr., and were informed that the candidate also intended to take appropriate action with the Federal Election Commission and was also considering legal action against the *Times*.

Party legal advisors report that the Fusion Energy Foundation has been given cause for damage-action against the *Times*, and that several businesses named in the libelous item have clear grounds for damage-action, too.

According to earlier statements by the authors of

the libel, Howard Blum and Paul Montgomery, the *Times's* publication of the medley of lies and distortions was prepared under the auspices of an understanding among the *Times*, Representative Elizabeth Holtzmann (D-N.Y.) and officials within the Carter Justice Department. Blum and Montgomery assured Labor Party undercover operatives investigating the matter that the *Times's* publication of this piece would serve as a pretext for massive Justice Department harassment of the U.S. Labor Party and other organizations. These statements are recorded on tape and supported as evidence by photographs and affidavits.

If investigation proves that Holtzmann and Justice Department officials are as guilty as Blum and Montgomery avowed, a case will unfold which is potentially greater than "Watergate." In any case, the new legal action against the *Times* will intersect three other civil cases now in progress.

One of these cases is a \$25 million lawsuit against the Anti-Defamation League. This is a conclusively documented case, proving an efficient conspiracy by top-ranking officials of the Anti-Defamation League to incite violence and other unlawful forms of harassment

against the U.S. Labor Party and the person of Democratic presidential candidate Lyndon H. LaRouche, Jr. Another case involves a major lawsuit against the Roy Cohn-linked *Our Town* publication, plus a complaint against the convicted-felon-directed *Our Town* for "criminal solicitation."

Evidence shows that the *Times* has been wittingly involved in complicity with the ADL and with the Roy Cohn-linked publication. In a third case, to which the *Times* refers repeatedly in its libelous piece, the *Times* relies on the testimony of a former Labor Party member presently being sued as a result of his efforts to illegitimately seize control of corporate assets.

Motive for the libel

It might appear that the *Times's* motive in publishing the libel is to injure the primary campaigns of Democratic presidential candidate Lyndon H. LaRouche, Jr. The *Times* does stress the 27 percent vote for a U.S. Labor Party candidate in a recent election in Seattle, Washington. Just recently, *Times* columnist Tom Wicker joined in warning against the possibility that the New Hampshire primary might generate momentum around the candidacy of some "unknown."

However, the *Times's* commitment to this present libel-centered operation was underway prior to the recent pattern of rising momentum for the LaRouche campaign.

Since the launching of the European Monetary System in July 1978, many leading financial executives in New York City and in Western Europe have identified LaRouche as the "intellectual author" of the new, gold-based monetary system now being brought into being. In fact, LaRouche's influence did add significant elements to the basic structure of the proposals developed by the late Jacques Rueff and others. The recent defeats for the International Monetary Fund and World Bank at both the Nonaligned Heads of State summit in Havana and the recent IMF conference at Belgrade, plus the Dresdner Bank's control of the world monetary-gold market, bring LaRouche's proposals very near to realization.

If the new, gold-based monetary system is brought into being, the financial interests associated with the City of London and the New York City investment-banking community will lose the overreaching political and financial power they have enjoyed since the Versailles Treaty. These interests are represented in the United States by the New York Council on Foreign Relations. The *New York Times* is the popular house-organ in fact for the New York Council on Foreign Relations.

Because of his influence as an economist, LaRouche has been repeatedly described as a "fearful" variety of "potential danger" by high-level spokesmen around both the City of London and the orbit of the New York Council on Foreign Relations. It was for that reason

that the London-CFR crowd deployed both the Anti-Defamation League and the Heritage Foundation to conduct slanders and harassment campaigns against LaRouche and his associates beginning May 1978. The Heritage Foundation operates under the top-down control of two foreign-based intelligence organizations, the London International Institute for Strategic Studies, a British intelligence entity, and the Mont Pelerin Society, a Hapsburg-linked, profeudalist organization created for the purpose of subverting the United States.

LaRouche's growing reputation as the leading economist of the 20th century, and his influence as a presidential candidate, merely intensifies the hatred and fear of the candidate among the circles which control the *New York Times*.

According to earlier disclosures by Blum and Montgomery, the *Times's* original plan had been to start the libel with a page one headline to the effect "Labor Party Linked to CIA." This eye-catching charge would attract interest among credulous readers. Then, the rest of the garbage Blum and Montgomery were piecing together would be attached to the opening paragraphs.

For various reasons, the *Times* abandoned the "CIA-linked" gimmick. All that remains of that earlier version of the libel is the included reference to Roy Frankhouser in the published version. The dropping of the "CIA-linked" gimmick forced the *Times* to adopt a new lead-in stunt. The theme of "cult" and "cult-like" was chosen for this purpose.

Times solicits violence

Otherwise the present version of the story is essentially what Blum and Montgomery outlined, unwittingly, to Labor Party security operatives deployed undercover. The story is designed, as Blum and Montgomery unwittingly put on record, to provide a cover for what would be in fact unlawful harassment by agencies of the Carter administration. The article also represents a clear act of solicitation to violence by the *Times*. Montgomery both seeks to incite violence against Labor Party members, and also indicates that the *Times* and its friends are disposed not only to condone such violence but also to influence courts to the effect of letting the perpetrators of such crimes off free. In fact, the *Times* article includes statements which attempt to mitigate charges of violence against a defendant arrested for assault and battery on a Labor Party woman, in a trial now in preparation.

The hard core of the *Times's* attempt at solicitation to violence is the inclusion of the lying characterization of LaRouche and of the Labor Party as anti-Semitic. As in the case of the Roy Cohn-linked *Our Town* libels, solicitation to violence by convicted felon Ed Kayatt resulted in assaults on Labor Party members.

One can not condone the *Times's* charge of anti-Semitism as a matter of interpretation. The charges of anti-Semitism against the Labor Party have been argued

on two premises. One of these premises is the Labor Party's denunciation of Israeli atrocities in Lebanon and in the occupied territories, together with the Labor Party's proposal of the same policies recently voiced by Nahum Goldmann and other prominent Zionist leaders. The second premise used to give color of truth to the lying charge is the exposure of certain Jewish-name elements of national and international organized crime as accomplices in the Hong Kong-Rangoon-Singapore centered heroin traffic, in complicity with the government of Peking. To call that exposure "anti-Semitism" is the most evil sort of nonsense.

Hitler got his job through the New York Times

An authoritative writer has revealed that Adolf Hitler was a Bavarian correspondent for the *New York Times* during the middle 1920s. There is no disputing the *New York Times* headlines on the Hitler coup d'etat at the time. After the visit to New York City by Hitler patron Hjalmar Schacht, the *Times* was among the most influential newspapers which attempted to play down Hitler's anti-Semitism, and which generally supported the Hitler regime as a necessary expedient.

To the point is the *Times's* rage against the nonpartisan National Anti-Drug Coalition. This should not be surprising. Not only is the *Times* allied politically to the forces pushing marijuana decriminalization and related evils, but the *Times* is closely allied to the financial interests which control the more than \$200 billion international drug traffic. The leading promoters of nonenforcement against the drug traffic outside the Carter administration itself are Senators Jacob Javits and Edward Kennedy. On this point, the motive for the *Times's* lying charge of "anti-Semitism" is all too obvious.

The right-wing label

The gist of the *Times's* argument for the "cult" gimmick is the argument that the Labor Party has undergone a top-down transformation into a "right-wing" "anti-Semitic" organization. The charge of "anti-Semitism" we have identified as a straight lie. The charge of "right-wing" outlooks is silly. Although the Labor Party has developed a new configuration of tactical alliances since January 1974, it is nonsense to argue that the party's outlook or method have changed over the period of its existence. Developed to greater richness, yes; changed in any essential feature, no.

Although the National Caucus of Labor Committees and Labor Party are distinct, separate organizations, it is true that the Caucus's outlook has successfully prevailed in the Labor Party. Therefore, it is useful to examine the Caucus's record over the past decade to present a conclusive case on the matter immediately at hand.

From the inception, the National Caucus of Labor Committees was reflective of LaRouche's deeply-en-

grained commitment to a method and outlook most exactly labeled "Neoplatonic." This was coupled with LaRouche's authority as a leading economic thinker, and colored by LaRouche's expert correction of the fundamental errors in Karl Marx's *Capital*. Furthermore, from the beginning to the present, the Caucus has been committed to high rates of real economic growth as national and global policies, and to the promotion of scientific progress and capital-intensive modes of investment as the indispensable means for achieving such growth.

The tactical posture of the Caucus has always been determined by discovery of the combination of forces in society which agrees or tends to agree with the Caucus's insistence on high-technology economic-growth policies. In the United States, this configuration includes black leaders, some progrowth trade-union figures, some high-technology-oriented farmers, some businessmen, scientists, and so forth. Internationally, this includes Christian Democrats and Gaullists, together with forces typified by President Lopez Portillo of Mexico.

Otherwise, the right-to-left gradation of political philosophy has always been nonsensical. As France's President Giscard d'Estaing rightly emphasized in an address at Bordeaux, the tradition of fitting present-day politics to 1790s seating arrangements in the French revolutionary parliament has always been folly. Unfortunately, although right-versus-left schemas were never better than theatrical fantasies, too many credulous people have not only accepted such fantasies, but have often acted out those delusions. The only fundamental fighting issue over thousands of years to the present day—the only issue really worth fighting—is between the forces of reason, the city-builders, and the opponents of technological progress, the "feudalist" Malthusian-like forces, like today's "antinuclear reactionaries."

In this time of crisis, those forces which stand for reason, for technological progress, tend to come together in common cause against the scourge of "anti-technology" small-is-beautiful barbarism. In coming together the allied forces begin to drop off those "right-wing" and other false labels they carried as ideological baggage in the past. So, to the extent that support for high-technology, capital-intensive economic growth is viewed by the *Times* and sundry lunatics as "right-wing" postures today, the label "right wing" sticks in the eyes of the *Times* and the Fonda-followers generally whenever the Labor Party comes under discussion.

The Labor Party is opposed to the effort to transform the United States into a drug-ridden, clockwork-orange-like gambling den, into a new Sodom and Gomorrah. For that reason, those libertarians who prefer such exotics as marijuana and pederasty in our public schools denounce the Labor Party as "right-wing."

Taking on 'organized evil'

National Anti-Drug Coalition holds first meeting in Detroit

On Sept. 29, 1979, over 700 people came together at Detroit's Cobo Hall to found the National Anti-Drug Coalition, the first national organization in the United States with an action program to end the drug plague. Most of the 700 conference participants were leaders, ranging from civil leaders, representatives of state and local governments, community organizers, religious leaders, trade unionists, directors of drug abuse centers, to a candidate for President of the United States.

What distinguishes the new organization from any previous anti-drug effort is that it has made no compromise with the "social work" mentality that treats only the localized manifestations of a worldwide drug trade.

On this theme, Lyndon LaRouche, the Democratic presidential candidate who attended the conference, declared that "Drug addiction is not the product of the weakness of our children, but an organized evil that preys on the weakness of our children." The National Anti-Drug Coalition defined its purposes and goals from that perspective.

According to conference participants, Edward Christian, an assistant to the County Medical Examiner in Philadelphia said, "I have fought drugs for 16 years and this is the first time a national organization has ever been pulled together. I know that just from the momentum that we have already created, this coalition will work—we can win."

The impetus for a National Anti-Drug Coalition began with the Dec.

18, 1978 formation of the Michigan Anti-Drug Coalition, which hosted the Detroit conference. Since then, anti-drug coalitions have been established in 27 cities across the United States, and in Colombia, Canada and Western Europe. Already, the coalitions in the U.S. have prevented the decriminalization of marijuana in Michigan, New Jersey, Wisconsin,



and Washington state, and have motivated legislators to undertake "re-criminalization" efforts in several other localities.

A major influence has been the best-selling paperback book, "Dope, Inc.," authored by a U.S. Labor Party research team. The book documents that, behind the street-level "pusher," there is an international cartel operated out of London, in large part through the British monarchy's control of the Hongkong & Shanghai Bank, a central bank for drug production and distribution internationally, from points of origin in mainland China and throughout Southeast Asia. The book defined

the drug trade as a new "British opium war against the United States."

"When the Michigan Anti-Drug Coalition was formed last December, we promised that this coalition would be different," states the original call for a national coalition, authored by Juan Torres and Salahuddin Muhammad, chairmen of the Michigan coalition. "We promised that this coalition would go after the top leaders of the international drug menace which threatens our youth. We promised we would name the names, regardless of how high up the social or political ladder the truth took us." After the resolution for action passed by the Detroit convention, coalition members confidently say: "We have kept that promise."

Task forces

The new National Anti-Drug Coalition resolved that regional and state coalitions will name five task forces to carry out its work in coming months.

An Education Task Force will pool resources for book publication, slide and film shows, and a speakers bureau, to advance drug education in schools and communities, and to serve as a clearinghouse for anti-drug programs in schools and related institutions.

A Legislative Task Force, composed of legislators, lawyers, judges and laymen will monitor, review, and devise legislation at the city, state and Federal levels relating not only to drug laws, but legalized gambling, pornography, and other "amorality" issues which the convention clearly

defined as related to the drug trade. As a matter of course, the coalition opposes decriminalization of marijuana, cocaine, and other drugs, and opposes the proliferation of drug paraphernalia and other activities contributing to the drug-culture environment. The legislative task force will seek mandatory drug education programs in the schools, will advance or support legislation strengthening law enforcement effectiveness, including U.S. coastal surveillance, and will also seek legislative and other sanctions against mergers and corporate acquisitions by U.S. and foreign banking institutions involved in financing the drug trade, or laundering drug and related "dirty money." Finally, it will seek Federal aid to Third World nations who seek to end drug cultivation, for example, aid for paraquat-spraying programs, as well as agricultural and industrial development aid.

A Fundraising Task Force will work in tandem with other efforts by the coalition's member-organizations to ensure that all events, organizing drives and literature distribution also raise the income needed for the coalition's effectiveness and growth.

A Special Task Force on the American Civil Liberties Union was created, on grounds that ACLU court cases on behalf of "civil liberties" are significantly devoted to removing all obstacles to the proliferation of drugs and related criminal activities. "The ACLU stands, in the eyes of the majority of Americans, as an organization committed to everything un-American," states the convention resolution. The ACLU seeks to prevent police searches of student lockers; to prevent school principals from expelling students caught pushing drugs; to prevent parents from searching their childrens' rooms; to allow children to sue their parents; to allow homosexuality to be taught to youth as an "alternative life-style"; to prevent Christmas carols from being sung, or God from being mentioned in public schools, even in non-denominational ways. "The National Anti-Drug Coalition will provide public forums, literature, and legal cooperation in areas where the

ACLU is trying to undermine parental, educational and public authority," states the conference resolution.

News reached the convention that leading figures in the government of Colombia had advocated legalizing marijuana production for export from that nation, in alliance with U.S. forces under Senator "Ted" Kennedy who seek to "decriminalize" consumption of marijuana "imports" in the United States. The convention therefore endorsed the anti-drug efforts of Colombia anti-drug forces, and created a task force to arrange for coalitions to send representatives to a Bogota, Colombia anti-drug conference this November.

In a related resolution, the coalition called upon all citizens to send letters, telegrams and make phone calls to those senators and others supporting the Revision of the Crim-

inal Code (S.1) introduced by Senator Kennedy, which contains a provision to decriminalize marijuana at a federal level. A third resolution extended coalition support to Congressman Billy Lee Evans of Georgia who is battling to restore recently withdrawn U.S. financial support to nations like Mexico and Colombia who have engaged in spraying of paraquat to kill marijuana crops.

Conference chairman Juan Torres has summarized the National Anti-Drug Coalition's character and goals as this:

"In the coming months, we will be forcing the passage of laws that will shut down the drug traffic in the United States and the drug supply coming into the country. The people of the world know that once the people of the United States decide to fight drugs, the drugs will stop."

The spectrum of the coalition

Organizations and churches represented at the convention included the

African Methodist Episcopal Church
 Roman Catholic Church (three parishes)
 American Muslim Society
 Baptist Conference
 Community of Al-Islam in the West
 Syrian-Antioch Orthodox Church
 National Association for the Advancement of Colored People
 International F. & A. M. Masons
 United Auto Workers
 4-H Club
 New Jersey Baptist Ministerial Alliance
 Chicago 18th Street Businessmen's Association
 U.S. Labor Party
 International Brotherhood of Electrical Workers
 YMCA
Delegates attended from
 Canada
 Mexico

Colombia
 India
 Taiwan
 West Germany
and in the U.S.A. from the states of
 Indiana
 Illinois
 Washington
 Oregon
 California
 New Hampshire
 Massachusetts
 Connecticut
 Wyoming
 Ohio
 Pennsylvania
 New Jersey
 New York
 Maryland
 Washington, D.C.
 Virginia
 Georgia
 Michigan (including 15 towns from the Detroit area)

Greetings to the Coalition were sent from around the world

Highlights of the convention speeches

Culver Kidd

State Senator, Georgia

"The Russians don't have to worry, the initiative that has made this country the greatest nation on earth is being sapped by drugs. Drug abuse is the largest threat to our communities and social fabric.

"As a political figure for some 30 years in the state of Georgia, and one that I hope will still be in politics for a long time to come, it is difficult for me to understand why some of our politicians will try to put politics above the need and input that we must have in the drug abuse field.

"We need tough laws. Over 3,000 pushers who have been apprehended have never been brought to trial. We need laws that make it so that anyone caught with 100 pounds of marijuana faces ten years in prison with no parole. All levels of government must do whatever is necessary to stop the availability of harmful drugs to their children. And we need leaders, like Mr. LaRouche, who lays it on the line."

Ganesh Shukla,

Editor, New Wave, India

"India, a nation of 650,000,000 people, sits at the center of the \$200 billion dope trade—which traces its route from Peking to Hong Kong to Singapore and Thailand to the United States. It is clear to us that the deliberate objective of this dope trade is the destruction of the youth of the United States.

"The aim is to target U.S. youth and destroy it and in the process destroy this nation's productive capability. This will prevent the industrialization of the Third World. The intended result of this policy can only be the mass genocide of entire nations.

"Thus, you and the Anti-Drug Coalition are fighting for us, for the hundreds of millions of us in the Third World."

Jesse Miller,

Mayor, Highland Park, Michigan

"My city, like many other cities, faces a crisis. Twenty-five percent of Highland Park's tax base is completely dependent on the Chrysler Corporation. If Chrysler goes under and those workers are laid off, demoralization will increase, drug addiction will rise....

"I am 100 percent committed to ending drug addiction and the drug traffic. In Highland Park, we are just beginning to attack the drug problem and shut down the pushers. ... We will soon be proclaiming an Anti-Drug Week there, but we need Congress to pass legislation that will shut down the entire business.

"Let the word go all out to all the mayors of the United States to make drugs a number one priority on the political agenda. ... This coalition is the only thing standing between America and bedlam."

Lyndon H. LaRouche, Jr.

Presidential candidate

"The fact that those who shift from opposing drugs passively, to fighting drugs actively are met with ugly threats and evil harassment shows that drug addiction is an organized evil. Drug addiction is not the product of the weakness of our children but an organized evil that preys on the weakness of our children.

"What must be emphasized is the moral issue. In this sea of suffering humanity is a more profound moral impulse which we must bring forth and enable the individual to act on it effectively.

"It is our responsibility to build the foundation stones for future generations. But if we have no posterity, we are building foundation stones in the desert. Our nation will become a 'Clockwork Orange.'

"Seventy-five percent of the American population understands that there must be a moral purpose to life. The other 25 percent will disagree with me. They say, 'I have a right to smoke marijuana.' They not only destroy their own minds. They neglect to look at the consequences to see that they create a climate of dope in which little children are hooliganized to submit to a dope culture. They refuse to recognize that where marijuana is grown, food is not grown; they refuse to

recognize that their opposition to nuclear energy means that billions of people will die because of their special private needs.

"Our job is to win the fight against drugs. This is not merely to argue, but to win this political fight, we must reach beyond the sheeplikeness of so many, to touch them, to evoke that sense in themselves of what is human. We must cease to be cynical about the adult citizenry, and mobilize that moral purpose in them. If we do that, we will win the fight against drugs and we will do something much more fundamental. We will have turned sheep into human beings with a sense of dignity."

Arthur Overton

President, Michigan Laymen's Association of the African Methodist Episcopal Church

"The question of decriminalization of marijuana to me parallels the story of the snake who said to the man, 'I'm cold. Would you permit me to take shelter under your coat?' And the man replied, 'If you promise not to bite me.' So the snake curled up on the man's chest. In a little while the snake bit the man, and very angrily the man flung the snake from him, saying, 'You promised that if I let you warm yourself you would not bite me!' To which the snake replied, 'You knew I was a snake when you permitted me to get close to you!'"

"The decriminalization of marijuana holds the same danger: first, decriminalization, then legalization. As early as the 1950s and 1960s, I was made aware of the devastation which could be wrought by the use of marijuana, and the ultimate evil: leading to the use of hard drugs. At that time the use of drugs was confined mostly to the areas populated by blacks. Young blacks apprehended for various infractions of the law were in 75 percent of the cases users of some kind of drug. In interviews with them, it was determined that in many instances their first venture in that direction was the use of marijuana, and a little bit later, when this failed to give them the required 'high,' they tried hard drugs. As a Christian, a father, a grandfather, a member of a national church organization, and a person living in a city which has felt the effects of the use of marijuana and other drugs, I appeal to those under the sound of my voice here, to help in this battle to defeat those who would by legislation pass a decriminalization bill in Michigan and other states."

Fausto Charris

Colombian agrarian leader

"It is the purpose of the state not to expand vices but to eliminate them. Anyone who says that it is in a nation's interest to legalize marijuana and drugs is either a drug pusher or a drug addict. The true wealth of a nation is its people; a president who is elected by drug addicts has committed vote fraud...."

"The Colombian peasant continues to be poverty-stricken. The peasant who grows marijuana may have money but he has no food; he is undernourished. What we need is that the youth of the United States help rebuild Colombia. Those who want to destroy the youth of the United States are those who want to destroy Colombia. Thus, there is an alliance between our two nations, our two peoples."

Dr. Edward Christian

An assistant to Phila. medical examiner

Edward Christian, a leader of the Pennsylvania Anti-Drug Coalition and a trained pathologist, presented a slide show to the conference on the horrifying effects of drug addiction. The drug pusher is a murderer. He took the audience through a half-hour viewing of dead and dying victims of drug addiction, showing the effects of drugs on their minds and bodies. He showed that although seven out of every ten victims of death caused by drug abuse are black, drug addiction afflicts every racial and socioeconomic sector of the nation. The last slide showed Mr. Christian's brother, dead of an overdose with the needle still in his arm.

After the presentation, a number of people, including children in the audience, fainted. "We must make our children faint," said Juan Torres, Michigan Anti-Drug Coalition chairman, "to burn in their minds the destruction drugs means."

In the coming weeks and months, Mr. Christian will present his slide show before hundreds of communities and schools across the country.

Alan Cropsey

Republican Michigan State Representative

"In the Michigan Legislature last year, marijuana decriminalization was passed by both houses but it did not go to the governor because a Democrat, Matthew McNeilly, stood up and asked the Legislature to reconsider the bill. He explained why—his son had started on marijuana and last year he buried his son, who had died of an overdose of heroin. Only because of the

courageous act of this Democratic senator was decriminalization not made the law.

"When I came to the Legislature in the next session, the anti-marijuana forces were in total disarray, and then Peter Signorelli of the Michigan Anti-Drug Coalition knocked on my door. I will work with anyone who wants to fight drugs.

"The people of Michigan don't want marijuana decriminalization. What we must do is mobilize people to make their leaders do what they want, and if their leaders don't do it, they must be changed."

* * *

"Is someone from the Detroit Free Press here this evening? I wish they were; they might have gotten some facts from this seminar today that they might not have known before. A couple of weeks ago Peter Signorelli called me up and said, 'You made the Detroit Free Press,' and I said, 'Well, I thought I would because they had called me up and said, 'How come you are with the Anti-Drug Coalition? Do you know there are certain extremist elements in that coalition,' and I said, 'I don't really care *who's* in it; the purpose of what they're doing is trying to stop drug abuse.' They said, 'Did you know that they tend to be anti-Semitic?' Boy, they come up with some loaded ones! And I said, 'Well, I didn't realize that.' And he said, 'Well, they do' ... and on, and on, and on.

"I wonder if another newspaper had called up and had started inquiring about the communists, or started inquiring maybe about the gays up in the capital or something like that, whether all of a sudden we wouldn't have heard words like 'McCarthyism' flying around in the capital; 'McCarthyism!' flying around in other newspapers; 'Witchhunts!' May I ask why is the Free Press going on a witchhunt against an organization that is trying to stop the drugs in this state?

"Let me ask why the Free Press isn't going on a witchhunt trying to find out how drugs are related to the criminals who are going around trying to get money for a fix, about the crimes that these criminals are committing against our senior citizens, against our businessmen—and it doesn't matter what color the businessman's skin is, whether he's black or white—and against the homeowners Why aren't they going on a witchhunt looking to see who's *behind* who's pushing drugs? Why aren't they going on a witchhunt to see *why* these families are being broken up because of

drugs? Why aren't they going on a witchhunt to see who's behind the drug culture that is destroying the minds of our young people, that is killing our young people? Why aren't they going on a witchhunt asking how many tax dollars are being spent to try to rehabilitate these young people whose minds have been destroyed by drugs?

"I'm asking the Detroit Free Press: Why don't you go on a witchhunt like *that*? That is, if you're a *free* press, certainly you're free to look into the Anti-Drug Coalition, but you're also free to give the other side of the story, and I wish you'd do that also!"

Edward Bivins

Former mayor, Inkster, Michigan

"Those who have attended today should have the ammunition, the knowledge, and the moral strength to make drugs an issue from the family dinner table to the White House."

Jeffrey Steinberg

Co-author, *Dope, Inc.*

"The same forces behind the Oct. 6 environmentalist invasion of the Seabrook nuclear plant are the forces behind drug pushing. We have to name the names."

Dr. Gabriel Nahas

Adviser to the UN on drug abuse

"We are merely confirming facts observed by Islamic scholars 600 years ago: marijuana is debilitating to the mind and the body."

Kena Moreno

President, National Executive Committee of the Center for Juvenile Integration, Mexico

"To decriminalize marijuana is to legalize ignorance."

Aleem Sultan Abdullah

Representative for the Hon. Wallace Deen Muhammad of the Community of al-Islam in the West

"Every man has a right to an education."

The coalition makes legislative gains

Marijuana laws

Since the first state anti-drug coalition was formed in Michigan in December, 1978, the coalitions have effectively prevented "decriminalization" (reduced penalties) for marijuana use in Michigan, New Jersey, Wisconsin, and Washington state. The New York Anti-Drug Coalition also stopped a bill introduced by Senator Franz Leichter to "legalize" marijuana outright.

In Massachusetts, the State Senate overwhelmingly passed legislation submitted by Lucy Forti of the Massachusetts Concerned Citizens against Drugs, and Graham Lowry of the U.S. Labor Party, requiring every school to conduct surveys on the extent of drug use; to submit progress reports; and to institute antidrug curriculums in every school.

Hongshang bank takeover

Anti-Drug coalitions in Buffalo and New York City fought and stopped the bid of the Hongkong and Shanghai Banking Corporation to take over the Marine Midland Bank. The Hongshang has been identified as the leading international financier of opium and heroin traffic and related money-laundering.

The coalitions' mobilization brought the Hongshang's character to the attention of the public. New York State Banking Superintendent Muriel Siebert announced her intention to veto the takeover, and the Hongshang then withdrew its application.

Pressure at federal level

In Maryland, State Senator Harry McGuirk told the 1979 Conference of the Maryland Anti-Drug Coalition, July 21:

"What we really need to talk about ... is the international drug supply. At the international level, I do not see how this amount of drugs could come into the United States without some support somewhere through the system, and we have to make a very large effort to go after it...."

Hartford Anti-Drug Coalition Day

Hartford, Conn. mayor George A. Athanson saluted the work of the Connecticut Anti-Drug Coalition, declaring July 29, 1979 Anti-Drug Coalition Day there. His proclamation read in part:

"Whereas the Connecticut Anti-Drug Coalition is holding its first major public event on Sunday July 29, 1979, to inform the public of its existence and bring together the religious, political, social service

and education leaders of our community on this important issue:

"Now therefore, I, George A. Athanson, Mayor of the City of Hartford, do hereby proclaim Sunday July 29, 1979 as

Connecticut Anti-Drug Coalition Day in the City of Hartford

and call on all Hartford residents to join in supporting this valuable resource and to avail themselves of its services in the fight to eliminate drug abuse."

Mayor Athanson was re-elected for another term in recent elections in Hartford, winning against Democratic Party opponents associated with the Kennedy machine in New England.

Toughening Drug Laws

The Philadelphia City Council, spurred by the local anti-drug coalition, unanimously voted to send the following resolution to the state legislature and U.S. Congress in December, 1978:

"We hereby memorialize the Congress of the United States and the General Assembly of the Commonwealth to promptly review the drug laws, to change and strengthen them ... and we hereby call upon the Board of Education ... to take immediate steps to eradicate the drug rings and eliminate the use of drugs...."

The Massachusetts Legislature sent a resolution to President Carter and Congress condemning the International Monetary Fund and World Bank's efforts to make marijuana a "cash crop" for export by Third World nations:

"Whereas an estimated \$200 billion of international dope trade revenues is destroying the industrial integrity and scientific basis of the U.S. economy....

"Whereas developing sector countries, most notably Colombia, Guyana, and others in Latin America and Asia are being forced to convert their economies to cash crop drug producers to satisfy World Bank/International Monetary Fund terms of debt demand....

"Be it resolved that this assembly calls on Congress and the President to take all necessary steps to collaborate with dope-producing countries to wipe out all dope acreage and to assist in the rapid and thorough conversion of these economies away from debilitating World Bank policies and into sound agricultural and industrial integration into a growing world economy...."

Congressional Calendar

SALT treaty to move out of committee

The much delayed SALT treaty will finally move out of the Senate Foreign Relations Committee and may reach the Senate floor by early November, according to Senate aides. The Foreign Relations Committee chairman, Senator Frank Church (D-Idaho), is hoping to begin mark-up of the treaty starting on or about Oct. 15, and expects that this process will take at least three weeks. Church, who had said the treaty should not be passed until President Carter had notified the Senate about the status of the Soviet troops in Cuba, plans to speak on the treaty on Oct. 11, disclosing a proposed "reservation" on the treaty along these lines.

The Senate Foreign Relations Committee will hear testimony Oct. 11 in closed session chaired by Senators Birch Bayh (D-Ind) and Barry Goldwater (R-Ariz), the ranking members of the Senate Intelligence Committee. Their emphasis is expected to be whether Soviet compliance with the treaty is verifiable. Last week, the committee released a study declaring that if the treaty is not ratified, it will make U.S. ability to monitor Soviet military activity much harder. Although the report said that much of the treaty was verifiable, it did not say this of the whole treaty.

Increasingly, Congress had be-

come aware that the very existence of NATO itself is at stake in the SALT debate. America's European allies have made clear that if the U.S. does not ratify the treaty, they are prepared to begin making their own accommodations with the Soviet Union. On Oct. 9 Senator Biden (D-Del) released a Senate Foreign Relations Committee staff report warning about this. Biden himself declared that failure to ratify the treaty "would send through Europe the most profound and far reaching doubts about U.S. reliability as leader of the West."

The report itself warns that "because of their concern about growing Soviet power and uncertain American leadership, the allies now regard the ratification of SALT II as a major test of U.S. reliability as leader of the West." The authors of the report, who held numerous meetings with European diplomats, warned that the Europeans would not want to make the difficult decisions on modernization or deployment of new missiles in Europe unless the treaty is affirmed as "proof of the U.S. commitment to arms control and the continuation of the search for East-West stability."

Another boost for quick action on the treaty came Oct. 9 from Senate Armed Services Committee chairman John Stennis (D-Miss). Following a meeting with West German Defense Minister Hans Apel in Washington, Stennis said that he

was opposed to waiting on the treaty until next year because the issue was now clearly in the public mind.

Kennedy supports aid to Pol Pot

On Thursday, Oct. 4, Senator Edward Kennedy introduced an amendment to the Foreign Assistance Appropriations Bill, H.R. 4473, which would in effect legitimize aid to mass murderer Pol Pot. The amendment would authorize the U.S. to send \$20 million in cash and \$30 million in food to the International Red Cross and UNICEF, for dispersal in Thailand, and in Cambodia near the Thai border. Those agencies have made clear their intent to disburse the aid to both the Pol Pot forces and the Heng Samrin government. A spokesman for Kennedy said, "there is no question that the aid will be distributed along these lines. That is the position of our State Department. The U.S. supports neither side in the conflict, and we will not let politics enter into the dispersal of food."

Kennedy, however, feels stung by recent criticism of his position, according to Capitol Hill sources. He went to great lengths in Senate remarks to condemn the Pol Pot regime. Kennedy cites the "loss of nearly half its population from the

ravages of war and the cruel programs of the Pol Pot regime," as well as the "Pol Pot regime's policy of eliminating Cambodia's intellectual classes, including doctors and nurses."

Kennedy made no comment to a reporter's question about a close associate of his, Massachusetts liberal Senator Paul Tsongas, who attacked the recent Nonaligned Movement conference in Havana for refusing to seat Pol Pot.

Nunn plans December narcotics hearings

Senator Sam Nunn (D-Ga) has tentatively scheduled December hearings in his Permanent Investigations Subcommittee on the narcotics problem in the United States, according to Capitol Hill sources. The hearings will endeavor to once again put on the record overwhelming evidence concerning the medical dangers of marijuana, as well as exploring the larger questions of international narcotics trafficking. The hearings have not yet been officially announced, but Nunn has reportedly been eager to launch this effort, only hampered by his deep involvement in the SALT II debate.

Nunn recently carried out a wholesale reorganization of the subcommittee staff, bringing in a veteran of the Buffalo and Miami

organized-crime strike forces as Chief Counsel to the subcommittee. Whether the subcommittee is now equipped to go after such figures as the Buffalo based Max Jacobs family, or Israel and Miami's Meyer Lansky, remains to be seen.

Sources report that the tentative witness-list Nunn has assembled will make things uncomfortable for subcommittee member Charles Percy (R-Ill) on the issue of marijuana. Percy is the author of the notorious amendment to the foreign aid bill which has outlawed U.S. aid to Mexico and Colombia for their programs to wipe out marijuana with the herbicide paraquat. Percy has stated that paraquat is a dangerous chemical, quoting former HEW secretary Joe Califano; Percy also says that the evidence on marijuana is not yet in. When asked about the proven damage to the brain caused by marijuana smoking, an aide to Percy expressed ignorance and nervously asked for further information. Paraquat has been proven one of the safest herbicides.

The hearings could open the door for the introduction of legislation to repeal the Percy amendment. Georgia Congressman Billy Lee Evans (D), who is reportedly working closely with fellow Georgian Nunn, has been considering such legislation. Evans, who has taken the lead on such issues in the House, also has in hand a model

bill drafted by the Justice Department, at his request, which would outlaw the marketing and advertising of drug paraphernalia. The legislation could outlaw the sale of "High Times" magazine, the notorious periodical of the drug culture. On both the paraquat and the paraphernalia issues, Evans is only hesitating, say observers, because he has so far failed to get the national support he feels is necessary to make passage of such laws possible.

Senate votes up mobilization board

By a vote of 68 to 25, the Senate approved creation of an Energy Mobilization Board Oct. 4. The board has the power to select an unlimited number of energy projects for "fast-track" treatment, cutting red tape and speeding completion of the projects. The Senate bill allows the board to waive application of federal, state and local laws to complete the projects, but not to waive labor, civil rights and water rights laws or laws that would mean endangering public health or safety.

The board would not allow fast-tracking of nuclear plant production. It is mainly aimed at speeding low yield, synthetic fuels plants. The bill now goes to the House, which has two versions of its own.

FACTS BEHIND TERRORISM

Khomeini lobby prods PLO into U.S. antinuclear camp

Those liberals and radicals who helped put the Ayatollah Khomeini in power in Iran are now trying to lure the Palestine Liberation Organization into a disastrous (for the PLO) alliance with the "left-wing," environmentalist-terrorist elements in the U.S. Kennedy-for-President machine.

Leaders of the Palestine Liberation Organization have been advised by Council on Foreign Relations strategist George Ball, Bertrand Russell Peace Foundation ideologue, Richard Falk, and former Attorney General Ramsey Clark, that only by working with the antinuclear "left" in the United States do they have any chance of "defeating" the Camp David accords.

Ball and company are trying to stir up the most radical, "Jacobin" tendencies in the PLO. This tendency has expressed itself in the same kind of fondness for short-term expediency that led PLO leader Arafat into his catastrophic embrace of Khomeini earlier this year. Should the PLO fall into the trap this time around, the Khomeini blunder will be dwarfed.

The game to hoodwink the PLO was initiated by Ramsey Clark early last month. Clark hurried to Beirut to meet with Arafat, as reports circulated of breakthroughs in European-Arab diplomacy.

On his heels came a gaggle of propagandists for Khomeini. Included were Dave Dellinger, editor of Seven Days magazine, mouthpiece of the Washington

Institute for Policy Studies and London Transnational Institute; Don Luce of Clergy and Laity Concerned; and Edward Said, a professor at Columbia University. Said gave a presentation before a Beirut Palestinian audience calling for an alliance to be formed with American "liberals, leftists, and civil rights activists."

Upon returning to the United States, Clark, Luce, and Dellinger were featured speakers at a Sept. 21-22 meeting of the Palestine Human Rights Committee, a meeting that was endorsed by Falk and various Institute spokesmen. At the gathering, Dellinger appealed for an organic alliance to be constructed between the Palestinians and the U.S. antinuclear movement. He "promised" that a prominent PLO or pro-PLO spokesman would be brought to every major antinuclear rally in the country! Luce then led a chorus of speakers in attacks on the "evil effects of American technology" in the world.

In an interview this week, Dellinger, who controls the terrorist "Clamshell Alliance" groups, expressed confidence that the Palestinian Human Rights Committee could be "naturally linked up with" such antinuclear groups.

The Committee's susceptibility to such an alliance is rooted in the fact that although the PHRC serves as a channeling agency for generalized Arab-American sympathy for the Palestinians, its leaders are tainted by British connections. Its head, James Zogby,

founded the group in cooperation with Falk, M.I.T. brainwasher Noam Chomsky, Transnational Institute head Eqbal Ahmad, and a representative from the Center for the Advancement of Arab-British Understanding, or CAABU. CAABU has known controlling links to the Muslim Brotherhood, the semisecret society now ruling Iran, and other anti-progress and terrorist groups in the Middle East.

One of Zogby's closest allies, and a featured speaker at the Sept. 21-22 meeting, is Detroit's Abdeen Jabara, a Lebanese-American pinpointed by knowledgeable Arab-American community leaders for his role as a supporter and controller of terrorism.

After the conference, Zogby told one caller that he was interested in having the Human Rights Committee "reach out to such groups as the Citizens Party and other antinuclear groups." The Citizens Party, headed by environmentalist-extremist Barry Commoner, is the left flank of the Kennedy machine.

Dellinger's promise has, however, been met by no commitment at all by the PLO leadership itself, as he confessed in an interview. Anything smacking of Kennedy is anathema to most of the Arab world.

Also encouraging is the lukewarm-to-negative response accorded Jesse Jackson, known in the United States for his involvement in Ramsey Clark's black street-gang and race riot schemes. After Jackson finished his recent romp through the Middle East, which included long-winded appeals for the PLO to join Camp David, the press of Saudi Arabia, Kuwait, and elsewhere this weekend attacked him for "fronting for Israel."

—Mark Burdman

LABOR PERISCOPE

A faction fight over Meany's successor?

Certain individuals at the AFL-CIO headquarters in Washington, D.C. are circulating the rumor that a "political battle" may take place over who will succeed retiring AFL-CIO President George Meany.

As the rumors, which have found their way into the pages of the *Wall Street Journal* and elsewhere, describe it, two building trades leaders—Martin Ward of the Plumbers and J. C. Turner of the Operating Engineers, are testing the waters for possible AFL-CIO presidential bids. They would oppose the only announced candidate, New York Council on Foreign Relations (CFR) member and AFL-CIO Secretary-Treasurer Lane Kirkland.

While Turner and Ward may be making a few phone calls, people familiar with the workings of the AFL-CIO Executive Council regard the talk of a "real political battle" between Ward and/or Turner and the CFR's Lane Kirkland as just so much hot air.

On basic "political questions," there is little difference between Kirkland, Ward, and Turner. All three are leaders within the Zionist-dominated Social Democrats U.S.A.

Kirkland and Ward are both members, along with James Schlesinger, of the warmongering Committee on the Present Danger. All three are members of the Trilateral Commission, the Council on Foreign Relations offshoot

that helped create the Carter administration.

On every issue of significance, Ward and Turner have staunchly followed Kirkland's lead. This has included following the Kirkland-dictated AFL-CIO energy policy which at last summer's Executive Council meeting downgraded the Federation's support for nuclear power and emphasized the need for sacrifice and conservation. Most recently, Ward and Turner enthusiastically endorsed Kirkland's recent economic deal with the Carter administration. The Kirkland-authored policy statement approved by the Executive Council gave the AFL-CIO's approval to what was described as a period of great "sacrifice."

The AFL-CIO Executive Council is already being run by Kirkland, and has been for at least the entire time of Meany's recent infirmity. No one has disputed his role.

Insiders at the AFL-CIO headquarters laugh at the talk of a "political battle." What is going on, they say, is a jockeying for positions within the forthcoming Kirkland rule of the powerful trade-union confederation. The building trades, one of the most powerful groupings within the Federation, want to make sure that they are properly represented within the bureaucracy. There is talk of placing one of their people in the number two slot, the Secretary-Treasurer post now held by

Kirkland. The rumored challenge by Ward and Turner is merely a bargaining pressure for deals.

Their phony challenge covers up something more fundamental, though. The policies of the Council on Foreign Relations, pushed by Kirkland and endorsed by the Executive Council, are at variance with the interests of labor. This fact is becoming acutely obvious to many secondary leaders, especially in the building trades. They cannot sell the Executive Council's repeated calls on labor for more sacrifice, and its rejection of a fight for a nuclear-centered economic development program, to union members who rightfully fear a new depression. The only thing the AFL-CIO has offered is the promise that a Ted Kennedy presidential candidacy will somehow make everything better.

Add to this the widespread distrust and hatred of Lane Kirkland. Meany may have been a pie-card, but at least he once was a union member and an elected union officer. Kirkland never served as an elected union official and owes his position to no one except the Council on Foreign Relations. Given this, there is a real constituency for a groundswell of opposition against Kirkland. But for this potential to become a "real political battle," it will take more than backroom maneuvering.

—L. Wolfe

WORLD TRADE REVIEW

New trade deals

PRINCIPALS	PROJECT/NATURE OF DEAL	COST	FINANCING	STATUS
U.S./West Germany	Demonstration liquefied coal plant will be built at Morgantown, W.Va. Plant will convert 6,000 tons of coal a day into an equivalent of 20,000 barrels of oil.	nearly \$1 bn.	West Germany will pay 25% of cost	U.S. Senate has approved; House approval expected
Argentina from Switzerland	Sulzer Bros. (Winterthur) will build a heavy water production plant.	\$303 mn.		Winning contract awarded to Swiss in preference to rival Canadian and West German bids
Nigeria from Netherlands	Adriaan Volker Civil Engineering International BV, a subsidiary of Koninklijke Volker Stevin, will build a harbor complex for the Nigerian government near Port Harcourt.	\$233 mn.		
U.S. from Thailand and Bavaria	Boeing will supply (1) a 747 wide-bodied jet to Thai Airways International (\$60 mn.); (2) two 737s to Bavaria Fluggesellschaft (\$25 mn.).	\$85 mn.		
Egypt/U.S.	Gulf Oil will explore for oil in Sinai under a production-sharing agreement with Egyptian General Petroleum Corporation	over \$75 mn.	OPIC insured	Insurance issued
Saudi Arabia from U.S.	Aydin Corp. (Penna.) will supply Saudis with communications equipment.	\$73.5 mn.		Subcontract awarded through Litton Saudi Arabia Ltd.
Philippines from Japan	Penta Ocean Construction will build a dry dock, repair factory, and related warehouses in Subic Bay for Philseco, a joint venture of the Philippines government (60%) and Japan's Kawasaki Heavy Industries (40%).	\$37 mn.		
Update				
Spain from West Europe	Iberia, the Spanish airline, has committed itself to buying five more A-300 planes from the Airbus consortium			

Abbreviations:
 U = Undetermined
 NAP = Not applicable
 NAv = Not available

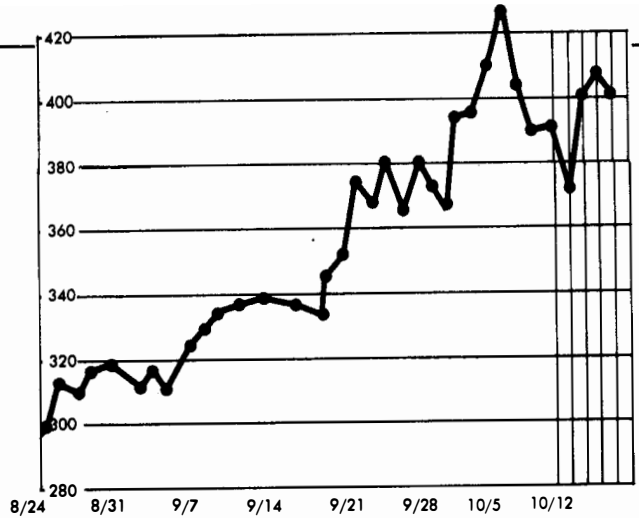
***Status:**
 I = signed, work in progress
 II = signed, contracts issued
 III = deal signed
 IV = in negotiation
 V = preliminary talks

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Gold

London afternoon fixing

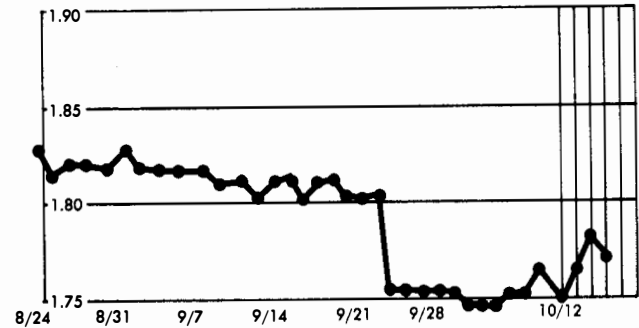
October 5	385.00
8	372.00
9	402.00
10	413.00
11	401.50



The dollar in deutschemarks

New York late afternoon

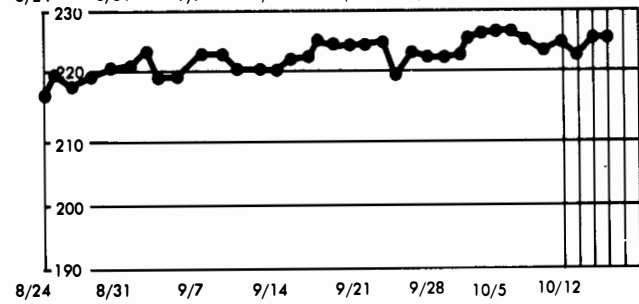
October 4	1.7640
5	1.7580
8	1.7665
9	1.7865
10	1.7735



The dollar in yen

New York late afternoon

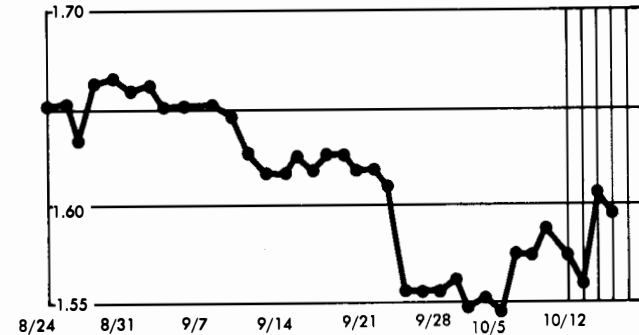
October 4	223.10
5	224.15
8	222.85
9	225.80
10	225.23



The dollar in Swiss francs

New York late afternoon

October 4	1.5855
5	1.5780
8	1.5690
9	1.6175
10	1.5970



The British pound in dollars

New York late afternoon

October 4	2.1875
5	2.1760
8	2.1630
9	2.1555
10	2.1725

