

# EIR

Executive Intelligence Review

April 1-7, 1980

\$10.00

Terrorism targets the Americas  
Exclusive: Rep. McCormack on fusion  
European Monetary Fund back on the agenda

**Why U.S. ruling circles are in trouble**



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Executive Intelligence Review is published by  
*New Solidarity International Press Service*  
304 W. 58th Street, New York, N. Y. 10019.

In Europe: *Campaigner Publications,*  
*Deutschl. GmbH. + Co. Vertriebs KG*  
Postfach 1966, D. 6200 Wiesbaden

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*International Press Service*

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Subscription by mail for the U.S.:

3 months—\$125, 6 months—\$225,  
1 year—\$396, Single issue—\$10  
ISSN 0 146-9614

# EIR

## From the Editor-in-Chief

As this letter is written, the meeting of the Trilateral Commission in London is concluding. It was a meeting billed by insiders as the place where the next U.S. President would be chosen. Instead, from preliminary reports, it was a brawl as the colossal failures of these would-be aristocrats and oligarchs sent them flying at each other's throats. The world, and particularly the United States, now sits on the brink of awesome economic collapse combined with the manifest failure of the foreign strategic policies of the Carter administration and its controllers.

The subject of this week's Special Report is this collapse of policy. Our Contributing Editor Lyndon H. LaRouche presents a comprehensive answer to the question: "Why Ruling U.S. Circles Are Failing Desperately." LaRouche presents a powerful analysis of the underlying economic issues of the current crisis while depicting the ruling "families" as squabbling Gods of Mount Olympus, fighting among themselves, but uniting to prevent a "Prometheus" from ending their rule.

Contributing Editor Criton Zoakos writes on "what" the content of those failures is. We have completed the package with extensive documents from various sources indicating the open debate now going on around the collapse of policy, including the impotent gestures directed at our European allies who have moved to distance themselves from Carter administration failures.



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Photo: Sygma. After fruitless talks this month, West Germany's Helmut Schmidt and Jimmy Carter brief reporters on the White House lawn as advisors including Zbigniew Brzezinski look on in silence.

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Events have convinced the American elite that their "controlled disintegration" policies for the West could cause their own destruction. They're right, reports Contributing Editor Criton Zoakos. But can they do anything about it?

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by Nora Hamerman

## Dictatorship: how close?

It is now just one year since the "incident" at the Three Mile Island nuclear plant in Harrisburg, Pa., and at this writing, less than a week from the scheduled deadline for the settlement of the New York city transit dispute or a crippling strike. In Washington, our sources report that the "Omnibus Banking Bill" of 1980, authored by those Wisconsin worthies Reuss and Proxmire, could pass Congress by as early as the end of March, legislating the technical dictatorship of Federal Reserve Board Chairman Paul A. Volcker over the United States.

The appropriate analogy for the situation we are moving into is late Weimar Germany. Between the New York-Connecticut primaries, which took the lid off the anti-Carter sentiment boiling up in the electorate, the impending 1930s-style chain of major bankruptcies, and the flight into Egypt of Henry Kissinger's pet shah, which has pretty much wrecked Carter's hopes for a hostage "deal," the occupant of the Oval Office is headed for total collapse. Ready to assume control over the United States is an extralegal nonelected government which the Congress sheepishly allowed to come into existence last year around this time. It is called the "Federal Emergency Management Agency."

FEMA as we previously reported is authorized to bypass all constitutionally mandated institutions to implement whatever measures it deems necessary. Only the National Security Council, another nonconstitutional body, has jurisdiction over it. FEMA came officially into existence one day before the Three Mile Island incident began last year.

The Three Mile Island malfunction can only be rationally explained as sabotage. This *EIR* documented in a full technical analysis last year. It has been used by the Carter administration just as

Hitler used the Reichstag fire of early 1933, in which Hitler's own goons burned the German parliament building and then used this to justify suspension of all civil liberties of the opposition.

Since TMI, more than a dozen nuclear reprocessing facilities, which provide the safest way to get rid of nuclear waste, have been closed; and new regulations are under consideration to prevent a plant from functioning within a ten-mile radius of a city, to stop new construction until evacuation plans have been worked out for the population.

This activity is just as fascist as having hooligans beat up workers in the streets, as Hitler did. It is letting loose a gestapo against the one energy source that would provide abundant, cheap energy for industrial growth. And now, the standby emergency rule that was established with the TMI sabotage affair is ready to carry out a lethal assault against the remaining technological capabilities and civil freedoms of the United States.

Set into motion by Samuel Huntington, the author of the Trilateral Commission's policy on "The End of Democracy," FEMA is committed to enforcing austerity conditions and containing resistance to international economic-warfare measures that are intended to create a much more serious economic crisis here.

The New York transit scenario fits right in. An aide to House Banking Committee Chairman Reuss admitted it is intended to usher in the recession. If necessary, New York will be put under direct FEMA control.

The question is whether Americans will tolerate the end of constitutional rule in order to maintain the economic doctrines of austerity which FEMA was set up to enforce or demand a different economic policy in order to preserve the republic.

## America's big banks look into the abyss

by Richard Freeman

The latest sharp tightening in U.S. credit terms has produced only one virtual certainty—sections of the U.S. banking system will go belly side up. U.S. banks which borrowed heavily short-term, to lend in great volume long term, now find themselves technically insolvent, refunding their short-term obligations at higher and higher interest rates. They are, in the words of a Wall street bank analyst, “slowly bleeding to death.”

This of course produced immediate rumors concerning perhaps the first bank that would go in the credit crunch: First Pennsylvania, with \$9 billion in assets, and stock selling in the \$3.50 to \$5.00 per share range, less than one third of its 1978 level. Last year, First Penn's earnings dropped 50 percent and its total assets fell a remarkable \$0.7 billion, or almost one eleventh during 1979. First Penn's equity cannot cover its bad paper. But more important, its losing holdings are beginning to outweigh its earning assets, the true tip-off that it is on its way down and out.

But, bank analysts are ticking off other insolvency targets, putting at the top of the list: First Chicago, First Wisconsin and Equibank of Pittsburgh.

This problem in the commercial banking sphere is matched among the thrift institutions. The *Wall Street Journal* of March 26 pinpointed the precise nature of the problem: nearly one third of the savings and loans are losing money this year, and the industry as a whole will on the year lose \$1 billion if interest rates don't go higher. Reports the *Journal*, “The spread is shrinking to the vanishing point. Industry costs have been rising by as much per week as they previously did per year. The prospect is that a few failing home lenders will quietly be merged into stronger institutions.”

The overall problem is that the shake-out in the banking industry will lead to an acceleration of the liquidity problem in the already unsteady corporate industrial sector, producing one or several large sized Penn Central-style bankruptcies.

### How Volcker is moving

That the banking sector should meet this fate is mostly its own doing. Following the meeting of 65 banking leaders with the Federal Reserve chairman on March 17 in Washington, D.C., Volcker laid out the ground rules of how he would run a credit crunch using the extraordinary, martial-law-like powers granted him under the 1969 Credit Control Act. That Act gives Volcker control over any and all types of credit extension, either by banking or corporate, agricultural, or consumer credit institutions and firms. Under the guise of examining these institutions financial transactions, Volcker can impose the most far-reaching changes on the economy. At the March 17 meeting, Volcker told the banks that he would allow the banks to lend new credit only at the rate of 6 to 9 percent per year: less than one half the rate of inflation. The banks agreed to this, aware of its obvious deleterious influence on production.

One economist for a large New York City bank explained the rationale behind this move in an interview with *EIR* March 26. “Look, I'd be drummed out of my bank for telling you this,” reported the economist, “but the commercial banks welcomed Volcker's crunch as a god-send. The commercial banks wanted to retrench. They wanted for a while to stop giving out new credit to their customers, but they were afraid that if they stopped first, their customers would pick up and go to another



bank. The policy is 'we'll all retrench together.' "

On the grounds that they could let the burden of the ensuing banking industry shake-out occur at the expense of the "smaller banks," the large money center banks were more than willing to play ball with Volcker. Moreover, reasoned the large banks, if there is such a shake-out, smaller banks can be picked up at distress sale prices.

One bank analyst noted, "several British banks are ready to step in and pick up U.S. banks as dollar assets before the value of the dollar goes kaput."

### Where the shake-out will lead

On the basis of strategic miscalculation of the above sort the large banks may become the victims of the very process they agreed to unleash.

The London *Economist* magazine of March 22-28 in its cover story, sums up the obvious. Entitled "The User's Recession," the lead story states that "inflation has climbed to a rate that Americans used to associate with banana republics." The attempt to kill off this inflation, via the Carter-Volcker package of energy conservation, selective credit controls and deep budget cuts brings with it the danger of global recession and a deep collapse in the United States. At the point this occurs, asks the *Economist*, will Fed chairman Volcker have the "nerve" to continue pushing downward?

An analogous situation obtained in the early years of the Nixon administration; Milton Friedman prescribed keeping money supply between the range of 3 to 5 percent, promising that this formula would eliminate inflation and push up GNP output to the 3 to 5 percent level. As Leonard Silk relates in his book *Nixonomics*, from December 1968 to June 1969, the money supply grew by 4.4 percent, just within the range laid down by Friedman, but during the first half of 1969, the consumer price index rose at an annual rate of 5.8 percent.

William McChesney Martin, chairman of the Federal Reserve Board had followed Friedman's advice "to the T." Between June and December 1969, he held the money supply to a 0.6 percent rate of growth. In the next six months, inflation not only rose to 6.0 percent, but the economy fell apart, as GNP fell in the first quarter of 1970 at a 3 percent annual rate. President Nixon rushed in Arthur Burns as head of the Fed to replace Martin, but the damage was done by June 1970. Penn Central filed for bankruptcy and the stock market went into its worst decline since 1929. In panicked reaction, Burns did what he and Nixon thought was necessary to salvage the economy and the upcoming congressional elections: pump money like crazy into the economy to prop things up. The inflation rate took off like a shot, and on Aug. 15, 1971, as the crisis played itself out, Nixon and his Treasury Secretary John Connally made the dollar inconvertible, burying the gold-based Bretton Woods system.

What now confronts Carter and the dollar is what one investment banker asked out loud this week: "what if the economy begins to fall like a stone," just as in the first half of 1970, with one or several Penn Central-style bankruptcies.

The London *Times*, in its lead editorial March 27, "The Fed Looks at the Future," predicted that in an election year Volcker and Carter's "follow through cannot be taken for granted," but that certainly once the elections are completed, the consumer credit sector, among others, must be annihilated. Yet, the *Times* is not calculating on the true dimensions of what is in store.

If the U.S. attempts to artificially keep U.S. interest rates up, but blows out the economy, the dollar will not remain strong, and capital flight will ensue for the simple reason that investors will know that the U.S. lacks the means to pay off on its paper. On the other hand, if Volcker decides to let interest rates fall, the current dollar bubble will not be able to hold up under massive capital flight. In either case, money will flee the dollar, and \$1 trillion Eurodollars will be presented for repayment.

If that happens, the U.S. banking system is shot: Citibank, Bank of America and all the other top banks playing footsy with Volcker's credit crunch will be in the situation of First Pennsylvania. The sole measure the U.S. could take to stem the dollar flight—exchange controls—will not solve, but only intensify the problems. As the countries of the European Monetary System see that they cannot trade in dollars, they will probably do what Volcker's measures have been partly designed to prevent, resort to gold-based European Currency Units.

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—G. William Miller,  
U.S. Treasury Secretary  
"Face the Nation," 3/16/80

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# International Credit

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## European Monetary Fund back on the agenda

by David Goldman

A steady stream of official pronouncements and press commentary from Europe demonstrates that the European Monetary Fund, the “seed-crystal of a new world monetary system” projected in July 1978, is back on the international agenda. Although the principal mover in the field, France’s President Giscard, has continued to play his cards close to his chest, monetary officials are now maneuvering around the “only trump card” in the game, as the London *Times*’ Frank Vogl described the French plan in a March 25 commentary.

In the original scheme of the French and West German leaders, the European Monetary Fund (EMF) was to absorb the gold and currency assets of the present European Monetary System (EMS) and broaden its role to include long- and short-term credit-issuing powers in initially greater volume than the present resources of the International Monetary Fund and World Bank. Formally speaking, the European institutions, now backed by gold worth about \$60 billion at market prices, would become the center of the new world monetary system. The American dollar and the Japanese yen would then join the eight currencies of the EMS on a fixed-rate basis. The gold backing and stability of the system would permit—and would in the long run depend on—large scale issuance of low-interest credits to build export markets for high technology capital goods in the developing sector and also the East bloc.

The above plan has been in public circulation for almost two years, but has generally been suppressed by hostile English-language media. Significant, therefore, is the coverage in the March 22 International Banking Survey of the London *Economist* of these matters. The facts presented have appeared many times in *EIR*, but their re-publication by this source is an indication of where matters stand.

1) *The Economist* admits that the IMF’s Special Drawing Right plan has failed to compete with gold remonetization (*EIR*, March 4) and includes a chart showing that gold valued at market price now makes up roughly half of all official reserves.

2) The EMS is now more of a power center than the IMF. “Like the elderly SDR, the ecu (Europe’s composite currency) has still to make the big leap into public use. It might just do it and get there first ...”

3) *The Economist* prints some details of what France has in mind: “At the Elysee (the French White House), the word is that ... ways must be found to increase stability and to ‘mobilize’ gold for the defense of rates and the settlement of debts.”

However, *the Economist* leaves out the most important feature of the entire process, the low-interest credit-issuing powers of the next phase of the EMS. The European governments are already putting such credit-issuing powers into place through private and existing government channels. The omission appears to be out of spite.

In a press conference March 25, West German finance minister Hans Matthöfer announced 1) that West Germany would sell some DM 10 billion, or about \$5 billion, in Treasury securities to OPEC nations; and 2) that the flow of funds through private channels would be much greater than the official flow cited. Senior Saudi Arabian sources affirm that “Saudi policy is to give the Europeans as much money as is necessary to maintain their political independence from the United States.”

On the other side of the balance sheet, the inflow of surplus OPEC funds into Europe is the basis for an export drive to the Arab world, the non-oil developing countries, and to some extent the Soviet sector. For example, Fiat’s just-announced \$2.5 billion deal to build a second “Togliattigrad” motor vehicles plant in the Soviet Union will, indirectly, be financed with Arab funds. However, more important than East-West exchanges is East-West collaboration with regard to the South.

Exemplary is the progress of West German nuclear delivery contracts with Argentina, despite American warnings against the alleged dangers of proliferation of nuclear weapons. The West German-Argentina deal came through while the head of Argentina’s nuclear energy commission was in Moscow discussing technical assistance from the Soviet Union.

The total volume of new trade deals either signed or opened since the Giscard trip exceeds a gross volume of \$50 billion in sales from Europe to the Arab world. However, the potential for sales is much greater than the figures already announced. The aftermath of the Giscard visit has eliminated barriers to the expansion of Western European exports that have caused stagnation in volume terms during the past year. Not least of these was the Bundesbank’s discouraging of bankers from assuming liabilities from the Arabs for trade-financing purposes under former President Otmar Emminger. With Emminger’s departure, bankers report, new President Karl-Otto Poehl has given them the green light.

## Is Nelson Bunker Hunt a sucker?

*The silver price has shot down, and gold looks sure to go up, which could leave a certain British-linked consortium holding the bag.*

The coincidence of the collapse of the silver price March 28 to \$11.50 an ounce, and Nelson Bunker Hunt's announcement of a consortium with 200 million ounces of silver and plans to issue securities against it, raises a question. Is Hunt the world's biggest swindle victim? He and his partners, who include two Saudi princes, have "tested the waters" for a longstanding British plan for commodity-reserve credits, floated over the past several months variously by *Financial Times* of London columnist Samuel Brittan, Bank of England advisor Sir George Boulton, and others. The test appears to have been a failure. It has cost the consortium \$2 billion in the worth of their holdings over the past 48 hours.

Of course, under certain circumstances, the venture could still work. The flaw in the scheme is that if the European Monetary System or its constituent countries float gold-backed securities on the prestige of EMS gold holdings, the paper of private operators will trade at a sharp discount.

One silver analyst, the New York-based broker Andrew Racz, has suggested that, in issuing silver-backed securities, the Hunt-Abdullah consortium hopes to raise funds at a six percent interest rate and relend the monies at prevailing dollar sector rates of 19-20 percent. The marketability of such bonds rests on the high probability that Volcker's credit policies will fail. Wall Street insiders fear that

Volcker has little choice but to 1) keep his foot on the credit brakes to the point that major corporations and banks go under, triggering a financial panic, or 2) reverse policy and print paper like mad, allowing the dollar to crumble on world markets. In either case, precious metals will go through the roof and the holder of silver-backed instruments should expect to profit.

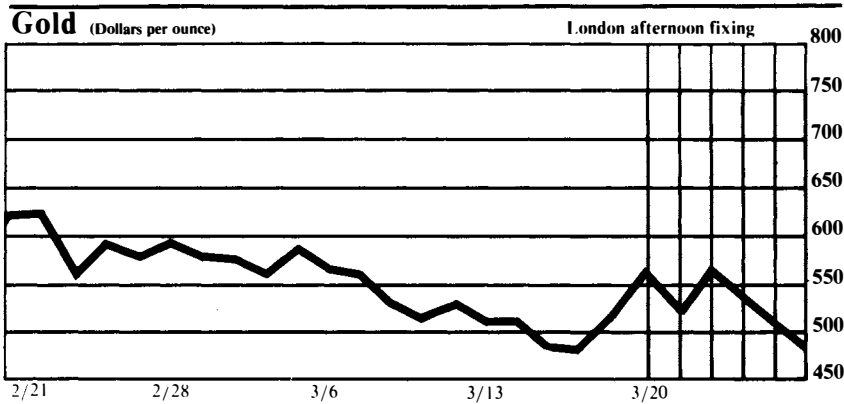
Certain City of London factions (for example, Sir George Bolton, Lonhro director and close associate of British Industry Minister Keith Joseph) have long advocated the dethronement of the U.S. dollar and its replacement by a commodity-based monetary system, which would greatly enhance the power of the British Commonwealth. Hunt's plan has a "designed in Britain" feel to it.

However, France is in an infinitely stronger position. During his tour of Middle East capitals in

March, Giscard discussed with Arab OPEC governments, including Abdullah's factional rivals in Riyadh, the question of how the \$120 billion petrodollar surplus is to be recycled. According to one account, Giscard offered the Arabs gold guarantees in return for their agreement to channel the bulk of the petrodollars through continental European banks.

London's fears concerning Giscard's monetary initiative were aired last week by the *London Economist* in a special "international banking" survey. One article in this survey reports that the U.S. Treasury has "stopped trying" to demonetize gold.

The result could be a major contraction in available gold supplies. While the Treasury has sold no gold since its November auction, the IMF sales are also due to end this spring. The Soviet Union may not sell much gold this year since it possesses ample foreign exchange reserves (ironically buoyed by its inability to spend them on U.S. grain). Dresdner Bank managing director Hans-Joachim Schreiber is predicting that the gold supply shortfall will push gold back up to \$850 an ounce before year-end.



## The credit squeeze and the dollar

*Paul Volcker's interest rates are temporarily keeping the dollar's value up, but it can't last.*

**F**eared of a new dollar crisis of unmanageable proportions two or three months down the line are becoming increasingly prominent among Washington and New York policymakers. A debate is already beginning to rage over whether to maintain high interest rates—the only current cause of the dollar's rise—or to impose exchange controls, letting interest rates relax to stave off impending corporate bankruptcies.

Foreign exchange traders note that almost all the monies coming into the dollar now are short, three-month, at most six-month, funds ready to leave as soon as necessary. "After all," said one European banker, "how long can he keep up 20 percent interest rates."

A hardline faction in the U.S. in fact is prepared to maintain the credit squeeze indefinitely to sustain the artificial value of the dollar. U.S. Trust economist James O'Leary, a colleague of Volcker's in the influential Ditchley Foundation, assumes, "Both inflation and interest rates will remain high through the end of the year." A well known economist now working for Congress added, "Normally a recession would lower interest rates and increase exports by cheapening the dollar. This would also lead to a capital flight, so I don't think Carter and Volcker will let interest rates fall. They will stand firm. Volcker earned the fail-

ure of a stop-go, stop-go policy. He won't let up." Asked about the expected spate of bankruptcies Volcker's policies are producing, he replied, "Look, we had Penn Central, we had Franklin National. Sure there were problems, but we got through it. We can do the same thing now."

Others are not so sure. "If it weren't an election year, they would stand firm," explained Kuhn-Loeb Vice Chairman Nathaniel Samuels, "but no one knows what Carter will do over the next few months. We face liquidity requirements yet there is a credit crunch, restraint. Who knows what Carter will do?"

The presumption among certain New York bankers is that interest rates will relax not because inflation will have peaked but because the political pressure of unemployment and bankruptcies, including major banks like First Pennsylvania, will become too great. At that point, they see Carter opting for the proposal made by Henry Kaufman of Salomon Brothers to the American Bankers Association meeting in February: selective exchange controls. "If there is a weak and deteriorating economy," commented a senior economist for one of New York's largest banks, "combined with continued hyperinflation, the dollar will be hit again. At that point it would be very easy, especially for this administration, to impose

exchange controls and wage-price controls."

Imposing selective controls, e.g. Kaufman's proposal to restrict U.S. citizen purchases of foreign currencies, would in fact shatter the last shred of dollar credibility.

While some Europeans and Arabs are making a quick buck on the dollar's temporary rise, other Arab money is going directly into French and German hands. The West German government secured last week an unprecedented direct purchase of 5 billion marks worth of government bonds by Saudi Arabia while marketing several billion marks worth of promissory notes to OPEC countries via the commercial banks.

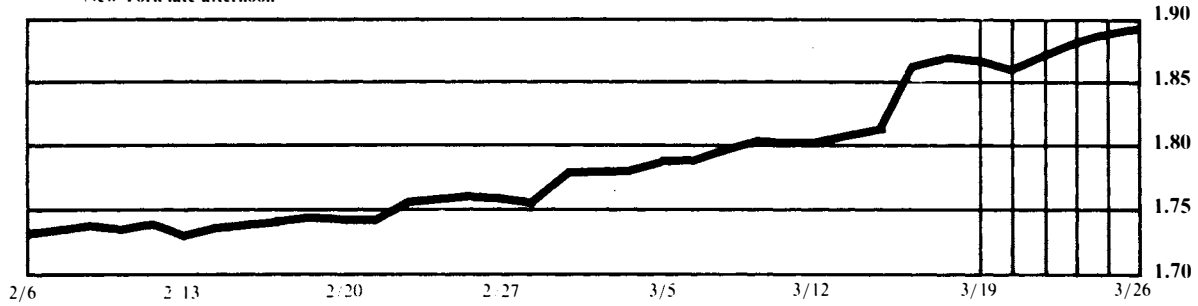
One foreign exchange trader noted, "The French franc is actually much higher than it should be given the current rates of the mark and Swiss franc. The only thing we can see is that they have some arrangement with somebody, perhaps the Saudis, keeping it propped up."

Even Japan, currently on the outs with OPEC for its support of Camp David, is preparing to market yen, mark and dollar-dominated bonds in Saudi Arabia while it doubled its exports of machinery to that country this year over 1979. One firm, Nagitta Engineering even issues a riyal-denominated bond for \$20 million early in March.

The dollar at present shows a continued rapid rise, propelled by the interest rate hikes, but traders are already speculating on where it will peak—"Mark at 193-95, Swiss franc at 180?" wondered one trader. When it does, Volcker will have very little ammunition left to keep it from taking quite a tumble.

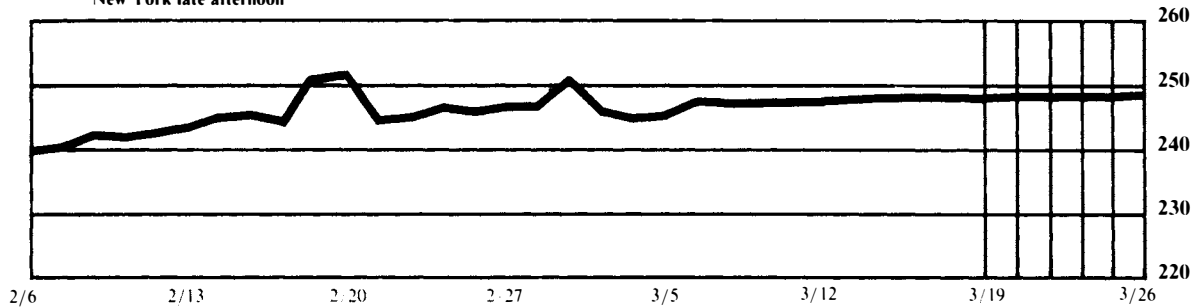
### The dollar in deutschmarks

New York late afternoon



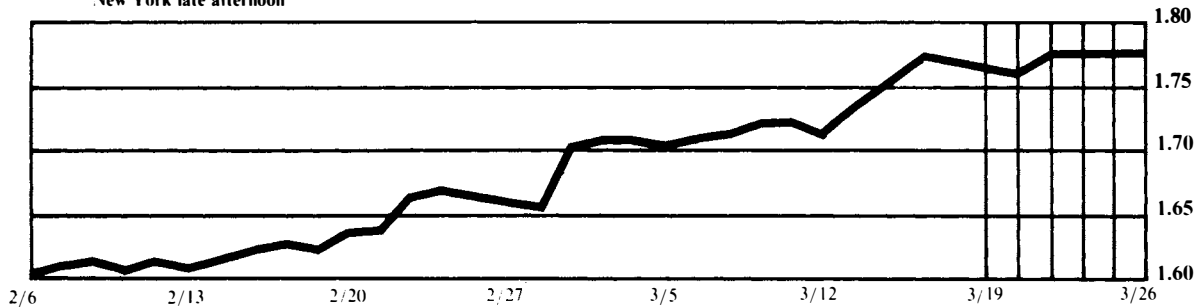
### The dollar in yen

New York late afternoon



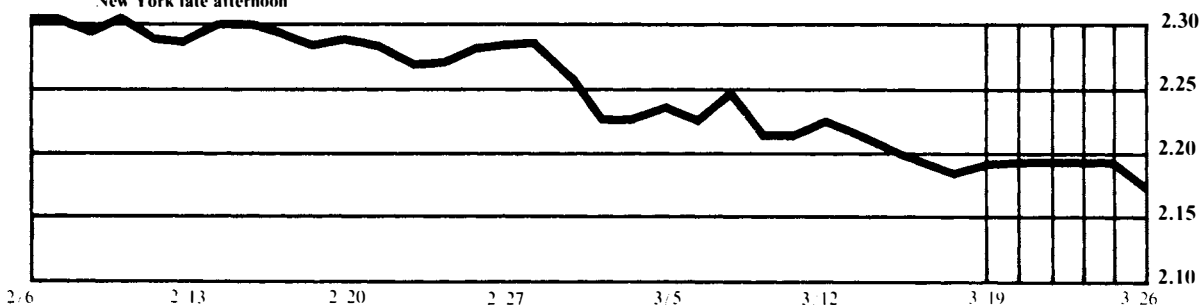
### The dollar in Swiss francs

New York late afternoon



### The British pound in dollars

New York late afternoon



## A growing politicization

*Recent waves of East-West and North-South trade agreements find the U.S.A. not participating; just about everyone else is.*

A wholly political growth and diversification of East-West and North-South trade relations is underway, as shown by a number of recently concluded trade deals.

The most widely known of these recent deals is the \$110 million Soviet contract just awarded to two Paris-based companies for deep-water oil drilling equipment and services. British and U.S. companies, including affiliates of British Petroleum and Brown and Root, were also active bidders for this contract. As reported in the financial press, this was the first major trade deal the Soviets had concluded since the U.S. imposed trade sanctions following the Soviet invasion of Afghanistan.

The Soviet awarding of this contract to the French companies, E.T.P.M. and U.I.E., was more than a reward for France's independent foreign policy posture after Afghanistan, in contrast with the Cold War fulminations of the Thatcher and Carter administrations. As a number of commentators accurately noted, the Soviets just cannot afford to conclude deals with unreliable trading partners who may cancel out at any moment. The Carter administration's commitment to blocking high-technology exports to the Soviets all but ruled out the U.S. winning the contract.

The two winning French companies are expected to receive an additional \$100 million order for deep sea rigs and drilling equip-

ment. This is the Soviet Union's first venture into deep-sea exploration. The drilling will take place at sites in the Caspian Sea.

France's close political partner, West Germany, is now negotiating a \$280 million trade deal with the Soviet Union's Comecon partner Poland. This trade deal is described by German Economics Minister Lambsdorff as designed to provide "raw materials security" for his country.

By contrast, the U.S. Commerce Department's approach to East bloc trade has been not only to oppose it for the U.S. but for other countries. The Feb. 25 issue of *Business America*, a widely read trade publication put out by the Department, carries a feature titled "East Europe Expands Trade with 'Third World'"—a development the Department is clearly unhappy with, since it tends to undermine the administration's commitment to putting the "Third World" under International Monetary Fund conditionalities.

Closely related to the Carter administration's commitment to such "One World" institutions is its commitment to the Geneva-based General Agreement on Tariffs and Trade (GATT). Almost one year after the administration initialed the new GATT pact (the "Tokyo Round"), that pact has received an important setback in the form of rejection of GATT membership by the Mexican gov-

ernment of Jose Lopez Portillo. A principal objective of GATT had been to suppress state-sector fostered industrial development in the underdeveloped sector. The anticipated joining of GATT by Mexico, a politically sophisticated and influential semi-industrialized nation with lots of oil and a strong state sector, was an important part of the GATT strategy.

Four Western European countries have been pursuing an expansionist trade policy with both the East bloc and development-minded nations such as Mexico. These countries are France, West Germany, Italy, and Spain. France's Mideast trade and diplomatic activities have been covered in recent issues of this publication. Closely related is France's trade activism in northern Africa. The French have just concluded a deal to build a \$152 million canal in Sudan.

Germany is going ahead with an earlier-announced heavy-water reactor deal with Argentina.

Italy has been pursuing nuclear energy cooperation agreements with such Moslem countries as Iraq and Indonesia. The Italian nuclear agency CNEN has just signed such an agreement with its Indonesian counterpart BATAN. A reactor research center, consisting of a heavy water reactor and a number of satellite laboratories, will be built in Indonesia with technical assistance and partial financing from the Italian government.

A similar deal was concluded between Italy and Iraq, whereby CNEN and an Italian private sector company, Snia Techint, supplied Iraq with two nuclear laboratories. Like Italy, France also has nuclear cooperation agreements with Iraq.

# Trade Review

## NEW DEALS

Cost	Principals	Project/Nature of Deal	Financing	Comment
3.5 bn	W. Germany from Saudi Arabia	Saudi Arabia's Petromin will supply Avia Mineraloel AG with 100,000 b.p.d. for three years; and Vega A.G. with an additional 66,000 b.p.d. (above current 22,000 b.p.d.)		Outcome of Economics Ministry delegation's trip to Saudi Arabia
2.5 bn	Soviet Union from France and Italy	"Togliattigrad II" will be built in U.S.S.R. by Italy's Fiat and several French firms	Libya and other Arab funds	
1.6 bn	Saudi Arabia/U.S.	A joint venture ethylene plant will be built at Yanbu (on the Red Sea)	Mobil \$500 mn; Saudi Arabia \$1 bn	Accord near
341.6 mn	China from Japan	Mitsubishi Heavy Industries Ltd. will build a 4 mn ton/yr continuous steel mill near Shanghai		Order received from China's National Technology Import Corporation
2 bn	Argentina from W. Germany	Negotiators for W. Germany and Argentina have finalized an agreement on safeguards for exporting a Kraftwerk Union heavy-water nuclear reactor from West Germany to Argentina		Export licenses expected to be issued within a month

# The farmers and their bankers: who'll go first?

by Susan Cohen



Agricultural survey

The American farm sector is about to undergo an across-the-board bankruptcy as the result of the Carter administration's decision to clamp credit controls on the U.S. economy. The hardest hit are the nation's largest, most productive, most capital-intensive farm units. If they go under, starvation immediately confronts whole sectors of the world's—and this nation's population.

The warning signals came even before Federal Reserve Chairman Paul Volcker announced his first set of "anti-inflation" measures last Columbus Day weekend. At that time, the U.S. Department of Agriculture calculated that net farm income would drop by at least 20 percent during 1980 from an estimated 1979 net income of \$32 billion to about \$20-25 billion. The USDA estimated that production costs would outpace rising farm receipts.

Then came Volcker's October measures, Carter's embargo, Volcker's February hike in the discount rate, the administration's decision to cancel the paid diversion program, the budget cutting and the credit control measures. With inflation still soaring, these sorts of measures have created the kind of liquidity crisis that can only result in a chain reaction bankruptcy of farm producers and their bankers alike.

Estimates for 1979 farm income are still preliminary, but what they indicate is that the increase in marketing receipts was indeed more than offset by a \$2 billion decline in government payments to farmers and a rise in production expenses of at least \$20 billion. Fuel and interest charges on borrowed funds, which together make up one-sixth of total production expenses, led the rise. The increase in net farm income is totally accounted for by such hallmarks of illiquidity as increased inventories and, to a lesser extent, other nonmoney income sources such as the increased rental value of farm dwellings, and so forth.

The grain embargo exacerbated this cash crisis by halting marketing and backing up stockpiles (10 million tons of corn and about 7 million tons of wheat in particular, out of record crops of both) of grain at the local and producer level. The credit-crunch measures meant that the cost of holding inventories was rising as crop prices plunged. Farmers were stuck without cash to finish paying last season's bills and to buy for the next planting.

The credit controls will make it prohibitively costly if not impossible to get sufficient credit.

## The eye of the storm

It is a Carter administration lie that crop prices have recovered to better than pre-embargo levels. When the embargo was announced, prices collapsed at the local level, especially for corn, and have not yet recovered. This situation is especially acute in the upper midwest grain belt, through the states of Iowa, Minnesota, Nebraska and South Dakota where the embargo aggravates



longstanding transport bottlenecks of one sort or another.

Because supplies from the bumper harvest are backed up at the elevator and on the farm, the spread between local prices and the prices quoted at the Chicago Board of Trade has widened by as much as 40 cents, as is the case in Grand Island, Nebraska where the basis fell from 10-20 cents under to 55-59 cents under. And, as Bob Dwyer, farm manager for the First National Bank of Grand Island, pointed out in a recent interview with *Feedstuffs* magazine, this occurred despite the fact that Grand Island has ready access to both the Burlington Northern and Union Pacific rail lines. In areas cut off from markets by rail "reorganization" and liquidation, it is much worse.

In Minnesota, for instance, where the embargo was preceded by several months of strike-bound ports and followed by a quick freeze of the Great Lakes grain routes to market, bankers report that local corn prices

**Table 1 Gross and net farm income**

	1977	1978	1979
Cash receipts from farm marketings .....	95.7	111.0	131.6
Livestock and products ....	47.4	59.0	66.8
Crops .....	48.2	52.1	64.7
Net change in farm inventories .....	1.1	1.1	5.5
Nonmoney and other farm income* .....	11.8	13.8	13.7
Gross farm income .....	108.5	126.0	150.8
Farm production expenses ...	88.8	98.1	118.0
Net farm income			
Current prices .....	19.8	27.9	32.8
1967 prices** .....	10.9	14.3	14.4

\* Includes government payments to farmers, value of farm products consumed in farm households, rental value of farm dwellings, and income from recreation, machine hire, and custom work.

\*\* Deflated by the consumer price index for all items, 1967 = 100.

Source: USDA, *Agricultural Outlook*, Jan.-Feb.

**Table 2 Farm income flows**

(percent change 1979-80 implied by USDA forecast of \$20 billion net 1980 income)

Type of income flow	All farms	Value of sales in 1978 (dollars)						
		100,000 and over	40,000 to 99,999	20,000 to 39,999	10,000 to 19,999	5,000 to 9,999	2,500 to 4,999	Under 2,500
<b>Farm income</b>								
Net income:								
Total .....	-36	-58	-25	-21	-23	-26	-23	-4
Money .....	-56	-65	-33	-32	-56	Loss	Loss	Loss
Cash flow:								
Total .....	-19	-36	-14	-10	-9	-7	-4	4
Money .....	-25	-39	-17	-13	-15	-21	-26	-15
<b>Farm and off-farm income</b>								
Net income:								
Total .....	-10	-47	-17	-9	-2	4	8	10
Money .....	-13	-52	-21	-12	-4	3	7	10
Cash flow:								
Total .....	-5	-31	-10	-4	1	5	8	10
Money .....	-8	-33	-12	-5	0	5	8	10

**Table 3 Percent distribution of selected income and balance sheet items**

Item	All farms	Value of sales in 1978 (dollars)						
		100,000 and over	40,000 to 99,999	20,000 to 39,999	10,000 to 19,999	5,000 to 9,999	2,500 to 4,999	Under 2,500
Number of farms .....	100.0	7.0	14.6	12.1	11.1	10.5	10.4	34.3
Cash receipts .....	100.0	56.3	25.0	9.9	4.5	2.2	1.1	.9
Production expenses .....	100.0	57.6	22.6	8.9	4.5	2.6	1.6	2.3
Real estate .....	100.0	33.5	22.5	13.5	8.1	5.5	4.8	12.1
Machinery .....	100.0	28.6	27.2	15.0	8.5	5.6	4.3	10.8
Nonmoney income .....	100.0	11.9	17.5	12.0	9.9	9.3	9.2	30.2
Off-farm income .....	100.0	5.9	7.8	7.4	8.7	11.1	13.1	46.0
Outstanding debt .....	100.0	38.7	32.1	15.6	5.1	3.0	2.0	3.6

are stuck at \$2 to \$2.06 per bushel, compared to quotes of \$2.56 cash prices in Chicago. Country bankers fear that despite the fact that \$2.20 to \$2.25 is viewed as the price it would take to move the corn, farmers will be forced into "distress sales" at prices below cost of production to generate cash to plant the next crop. Banks in Minnesota report upwards of 80 percent loan-to-deposit ratios and an extreme shortage of funds.

Corn and livestock producers from Nebraska interviewed recently in the *New York Times* emphasized the production expense side of this equation. The cost of bank credit has gone up 50 percent on average, fertilizer costs are up approximately 30 percent, and energy costs another 50 percent. "Last year I needed \$2.30 a bushel to break even," one producer told the *Times*. "This year it will be \$2.42. And do you know what the price of corn is today?" And, as a spokesman for one of the major American farm organizations told *EIR*, the distress signals are coming by and large not from the proverbial "little guy" or from the "poor manager," but from large, efficient operators who have not "over-

borrowed" in the recent years and who have not gotten into financial trouble over the past several years.

In fact, as *EIR* reported at the time, the farm income drop projected by the Agriculture Department will have a far more insidious impact on the farm sector than the USDA figures indicate. Analytical work done by Federal Reserve agricultural economist Emanuel Melichar and presented publicly at the time the USDA projections were announced shows that the projected 20 percent or more drop in net income will deal a crippling blow to the *largest, most productive units*, with rates of collapse of net money-income up to 38 percent and a drop in cash flow levels of up to 20 percent.

The accompanying chart shows the relative changes in income flows under conditions of a \$20 billion net income. The impact on the 34 percent of farm units with annual sales in the range of \$20,000 to \$100,000 range that account for the bulk of total U.S. farm output is the most severe and increases geometrically with successive reductions in net farm income.

This 34 percent accounts for 90 percent of total cash

**Table 4 Real estate farm debt, 1970 and 1975-1980**

Year	Debt owed to reporting institutions						
	Federal land banks	Life insurance companies	All operating banks	Farmers Home Administration	Total	Individuals and others	Total
	<i>Million dollars outstanding Jan. 1</i>						
1970	6,671	5,734	3,545	2,280	18,230	10,953	29,183
1975	13,402	6,297	5,966	3,215	28,880	17,408	46,228
1976	15,950	6,726	6,296	3,369	32,341	18,728	51,069
1977	18,455	7,400	6,781	3,657	36,293	20,266	56,559
1978	21,391	8,819	7,780	3,982	41,972	21,669	63,641
1979	24,619	10,168	8,557	4,121	47,465	24,767	72,232
1980	29,540	11,900	8,972	4,400	54,812	28,310	83,122

**Table 4a Non-real estate farm debt, 1970 and 1975-1980**

Year	Debt owed to reporting institutions (excluding CCC)					Individuals and others**	Total excluding CCC loans	CCC price support and storage loans	Total including CCC loans
	All operating banks	Production credit assoc.	Federal intermediate credit banks*	Farmers Home Admin.	Total				
	<i>Million dollars outstanding Jan. 1</i>								
1970	10,330	4,495	218	785	15,828	5,340	21,168	2,676	23,844
1975	18,238	9,519	374	1,044	29,175	6,050	35,226	319	35,545
1976	20,160	10,773	350	1,772	33,055	6,350	39,406	358	39,764
1977	23,283	12,223	368	1,877	37,761	7,300	45,061	1,012	46,073
1978	25,709	13,508	374	3,141	42,732	8,410	51,142	4,489	55,631
1979	28,273	15,016	509	5,780	49,578	10,420	59,998	5,242	65,240
1980	30,400	17,570	650	9,900	58,520	11,720	70,240	4,500	74,740

\*Financial institutions other than PCA's that obtain funds from the FICM's.

\*\*Includes Small Business Administration farm loans estimated at \$.3 bil., \$1.7 bil., and \$2.0 bil. for Jan. 1, 1978, 1979, and 1980, respectively.

Source: USDA, *Agricultural Finance Outlook*, November 1979.

receipts in the farm sector; 90 percent of production expenditures; and over 70 percent of machinery expenditures annually. Not surprisingly, it is this small group that carry the vast bulk of farm debt outstanding: nearly 90 percent. At the same time, these farms account for relatively little of the "off-farm" income that would otherwise help to cushion them against farm income drops.

If we consider, further, that the *nonmoney* component of farm income is about \$10 billion today, a 25 percent fall in operators' net income necessarily means a proportionally greater reduction in operators' *money* net income of about 32 percent. In addition, like "off-farm" income, nonmoney income is overwhelmingly concentrated on that two-thirds of farm units consisting of very tiny farms.

What the USDA projections, adjusted downward conservatively, mean is a fall in net money income from 32 to as high as 65 percent for farms in the \$20,000 and over annual sales range, accompanied by 13 to 39 percent drops in money cash flow. Since these units are the most highly leveraged, the income projections and performance to date map a cash-flow crisis of monumental proportions.

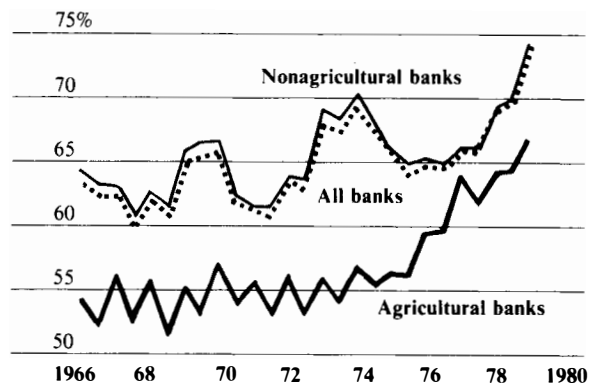
### How the banks stand

The banking system is hardly able to be of any help. With stagnant or falling deposit levels now highly constricted, the country banks have been forced to rely increasingly on money-center banks for correspondent relationships, access to federal funds, etc., or on a growth lending policy. As the proportion of money-center funds in their deposit base has grown, they have also been increasingly forced to pass on the high cost of funds to their borrowers.

The growing illiquidity of the regional banking system is reflected in the drop of the rate of growth of non-real estate lending at commercial banks and the slippage of the proportion of outstanding non-real estate debt held by the commercial banks. The very same is true for real-estate debt.

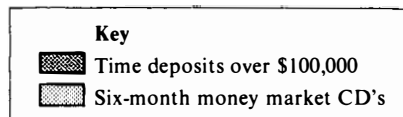
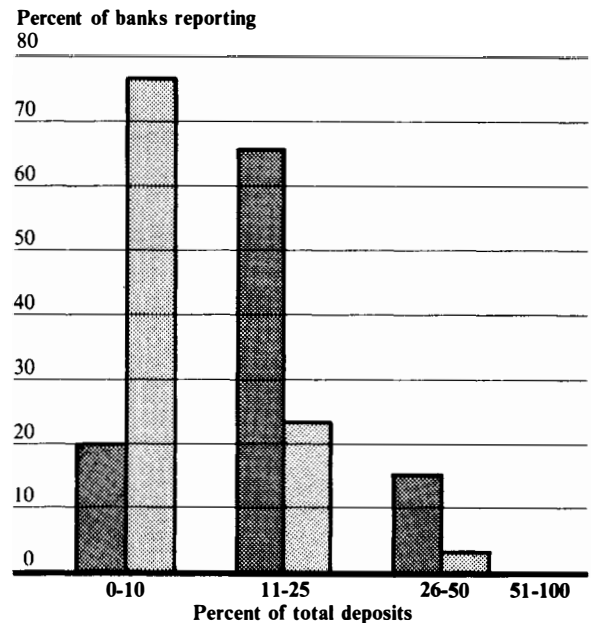
The regional banks were in trouble even before Volcker's latest measures, as January 1980 operating reports and surveys and an earlier, November, survey by the American Bankers Association indicate. The Federal Reserve's Tenth District, for instance, which encompasses Kansas, Missouri, Nebraska, Oklahoma, Colorado, New Mexico and Wyoming, reported that as of Jan. 1, district rural banks had "less liquidity than expected." Bankers were looking forward to implementation of a paid crop diversion program to bring some cash into their coffers early in the year. They got no diversion program, but an embargo, interest rate hikes and credit controls instead.

**Graph 1**  
Average loan/deposit ratio at insured commercial banks



Source: E. Melicher, "A Review of Selected Farm Financial Developments," Nov. 7, 1979.

**Graph 2**  
Deposit structure of agricultural banks of the Tenth Federal Reserve District,\* January 1980



\* The Tenth Federal Reserve District includes Kansas, Missouri, Nebraska, Oklahoma, Colorado, New Mexico and Wyoming.  
Source: Financial Letter, Federal Reserve Bank of Kansas City, Vol. 6, No. 2, Feb. 15, 1980.

In the Ninth Federal Reserve District, encompassing Minnesota, Montana, North Dakota, South Dakota and Wisconsin, loan demand as of Jan. 1 was reported unusually heavy, with a high level of requests to refinance. The reported rate on short-term agricultural loans in the district shot up by nearly two percentage points—from 11.8 to 13.6 percent—in the three months covered by the October to January survey. Lower on average than other farm loan rates, the district rates have been held down by usury limits ranging from 12 to 16.5 percent. Suspension of the usury laws on agricultural loans above \$25,000 by a recently passed federal law was being relied upon to assure that a supply of loan funds will be forthcoming. But the most recent of Volcker's measures, the six to nine percent credit growth rate in particular, means that the supply of loan funds is not assured—no matter what the price!

Even before the Volcker "anti-inflation" measures, an agricultural banking survey conducted by the American Bankers Association and published in November showed the liquidity crisis in the farm sector. The average loan-deposit ratio was 67 percent, compared to 65 percent a year before, and 45 percent of reporting bankers indicated ratios of 70 percent or more. Equally important is the increasing convergence of agricultural bank loan-deposit ratio trends and those of nonagricultural banks.

Despite the fact that country bankers had substantially increased their legal loan limits to farm borrowers over the years, 63 percent reported that they received loan applications from acceptable farm borrowers that exceeded their legal loan limit, the highest proportion

since the recession of 1974. The bulk of these were serviced by participations with other banks about (77 percent), and 16 percent were referred to other institutions or never granted at all. As the ABA notes, due to limited loan funds, the increased cost of funds to the country banks, and strong demand, the price of credit for agricultural purposes had already registered the largest one-year increase ever recorded by the ABA. A year ago most farm bank interest rates averaged about 9.5 percent. By mid-1979, the average was up to about 11 percent and most bankers expected further increases through the end of 1979. Average rates then were about 14 percent. Again the convergence of interest rate trends for farm loans at country banks and those at large banks, is significant.

Historically, the agricultural banks (the nearly one-third of all commercial banks which together account for 6 percent of total banking resources, and yet hold nearly half of all farm loans in the banking system) have been relatively insulated from the vagaries of the national money markets. They have relied almost exclusively on local deposits for their source of loan funds.

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 during tight money episodes. 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, short-term farm loans typically fluctuated by roughly one percent-

**Table 5 Percentage distribution of non-real-estate farm loans for all banks\***

Effective interest rate (percent)	Feb. 1977	May 1977	Aug. 1977	Nov. 1977	Feb. 1978	May 1978	Aug. 1978	Nov. 1978	Feb. 1979	May 1979	Aug. 1979	Nov. 1979
All loans . . . . .	100	100	100	100	100	100	100	100	100	100	100	100
Under 7.0 . . . . .	1	7	2	—	—	—	—	—	—	—	—	—
7.0 to 7.9 . . . . .	8	6	11	3	1	—	—	—	—	—	—	—
8.0 to 8.9 . . . . .	46	43	48	42	38	35	20	8	4	4	2	—
9.0 to 9.9 . . . . .	41	40	34	48	50	48	50	32	17	14	11	1
10.0 to 10.9 . . . . .	3	3	4	7	9	11	22	37	35	32	29	7
11.0 to 11.9 . . . . .	—	1	—	1	1	6	6	11	19	22	33	10
12.0 to 12.9 . . . . .	—	—	—	—	—	—	1	7	12	12	14	15
13.0 to 13.9 . . . . .	—	—	—	—	—	—	—	4	6	10	7	35
14.0 to 14.9 . . . . .	—	—	—	—	—	—	—	—	6	5	5	13
15.0 to 15.9 . . . . .	—	—	—	—	—	—	—	—	—	1	1	4
16.0 to 16.9 . . . . .	—	—	—	—	—	—	—	—	—	—	—	6
17.0 to 17.9 . . . . .	—	—	—	—	—	—	—	—	—	—	—	5
18.0 to 18.9 . . . . .	—	—	—	—	—	—	—	—	—	—	—	3
19.0 to 19.9 . . . . .	—	—	—	—	—	—	—	—	—	—	—	—
20.0 and over . . . . .	—	—	—	—	—	—	—	—	—	—	—	—

\* Percentage distribution of the total dollar amount of non-real-estate farm loans of \$1,000 or more.  
Source: Federal Reserve Quarterly Survey of Terms of Bank Lending to Farmers.

age 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 rivaled the total increases recorded for the farm banks during each of the two previous cycles.

The key to the behavior of farm bank interest rates lie in the changing composition of their deposit structure. For agricultural banks the federal funds market has typically served rather as a place to invest, not to get liquid funds. As of March 31, 1979, agricultural banks were net sellers of \$1.8 billion in federal funds, 2.5 percent of their total assets, while other banks were net buyers of \$61.1 billion worth of federal funds, an amount representing 5.2 percent of their total assets.

Over 1979 this pattern began to change noticeably. Sales of federal funds by agricultural banks declined from an earlier average of 4 percent of assets and the percentage of net buyers of federal funds among agricultural banks jumped from 10 to 18 percent, with net purchases representing 2.9 percent of total assets.

As of March 1979, long term certificates of deposit (\$100,000 or more) made up only 5.2 percent of total resources at agricultural banks, compared to 14.7 percent at other banks. As of Jan. 1, 1980, large-denomination time deposits comprised an average of 7.1 percent of the total deposits of Tenth Federal Reserve district banks.

In March 1978, agricultural banks introduced a new six-month money market certificate of deposit to enable them to compete for funds with money-center banks more successfully. In March 1979, one year after its offering, it made up 5.7 percent of farm bank deposits. As of Jan. 1, 1980, it made up an average of 17.5 percent of total deposits of country banks in the Tenth District.

These two so-called interest-rate-sensitive deposit types accounted for 24 percent of the deposit structure of reporting banks during the fourth quarter of 1979 in the Tenth District. The six-month money market certificate proportion of deposits was increasing dramatically, comprising between 11 and 25 percent of the deposit structure of 63 percent of reporting banks. These types of deposits act as a direct transmission belt for money-center dictated interest rate rises. The banks have to jack up rates to hold the deposits and must pass the hikes on to their farm customers. District-wide interest rates for all categories of loans were reported by an average of 30 percent as of year-end 1979.

Now it is precisely those resources, the bank funds above deposits, the so-called managed liabilities, which are the target of the latest Volcker moves. The new Fed measures raise reserve requirements on these funds from 8 to 10 percent, and lower the base on which the requirements are imposed by at least 7 percent. Nonmember

**Table 6 Sources of funds other than deposits**  
(percent of total)

	Current	3 years
Participations with banks . . . . .	33	32
Purchase Fed Funds . . . . .	25	22
Guaranteed loans . . . . .	18	20
Borrow from Federal Reserve . . . . .	8	7
Participate with PCA . . . . .	8	10
Agricultural Credit . . . . .	5	6
Other . . . . .	3	3

Source: Agricultural Banker, *Special Report*, November 1979.

banks are required to keep a 10 percent reserve against managed liabilities at the Fed for the first time.

The effect of these measures was foreshadowed in the ABA's November survey where reporting farm bankers' ranking of sources of funds other than deposits shifts significantly away from participation with banks and purchase of federal funds, the two items on the list which most directly bind them to the money-center banks. Guaranteed loans from the FHA as well as participation with the Farm Credit System's Production Credit Associations take a big jump, putting that system under considerable pressure.

The Farm Credit System of Production Credit Associations, Federal Land Banks and Banks for Cooperatives have direct access to loan funds through bond sales in the national money markets. For the past six months, PCA lending has been running at 25 percent greater than year-ago levels. As of January, total loans outstanding at the PCAs were up 22 percent from a year earlier.

The recent sale of Farm Credit System six-month and nine-month bonds saw 17.25 and 17 percent yields respectively, up sharply from the 15.30 and 15.35 percent peaks set in a just one month ago. As knowledgeable observers warn, these rates will catch up quickly in System loans to farmers during the year as the six- to nine-month paper has to be rolled over. Others worry that quantitative controls may be placed on the Farm Credit System's fundraising operations.

There are many potential triggers for the bust that has been set up in the farm sector. The extension of \$2 billion in FHA economic emergency assistance is bottled up in committee, exports are flat, and the administration's miserly approach to compensating producers for the effect of the embargo is hardly encouraging. Putting a lid on the Farm Credit System would certainly do it, but it would also leave the Federal Reserve and the government overlooking the largest bankruptcy and bailout in history.

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# Business Briefs

## **Banking**

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### **Crisis atmosphere assures passage of banking bill**

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The long-unpopular Omnibus Banking Bill, which phases out Regulation Q, unilaterally imposes reserve requirements on all U.S. financial institutions, and in other ways enormously enhances the powers of the Federal Reserve over the U.S. banking system and the economy, is not sailing through Congress because of the crisis atmosphere precipitated by the Fed's latest round of credit tightening.

Asked why the regional and savings banks had dropped their vociferous opposition to the bill, a Senate Banking Committee staffer explained last week: "They feared that if there were no such bill and a financial crisis erupted with six or seven hundred banks bailing out of the Fed, then worse things would happen. I mean a collapse of the bond market deeper than we've had, with the economy going into recession. ... They didn't want to see the Fed weakened substantially. And they all wanted to have access to the discount window when the crisis hit."

Many savings banks and smaller banks had previously opposed the Omnibus Banking bill because they believe it will promote the "homogenization" of the banking system—a collapse of the distinctions among different types of financial institutions and a consolidation of the banking system that will leave only a handful of large banks standing. During debate last fall on the Depository Institutions Deregulation Act, the Senate version of the bill, Sen. Robert Morgan (D.-N.C.) commented, "I think this bill should be entitled the 'Depository Institutions Abolition Act'."

The omnibus bill which emerged out of the Senate-House Conference in late March phases out of Regulation Q,

which allowed savings banks to offer interest rates a quarter-point higher than commercial banks to attract deposits to loan to the housing market; imposes reserve requirements on all U.S. financial institutions including non-member banks, savings banks, credit unions, etc.; provides the Federal Reserve with emergency authority to raise reserve requirements to any level it likes; waives state usury laws and allows all state-chartered depository institutions to make loans at one percent above the discount rate.

"If the Omnibus Banking Bill passes," the Senate Banking Committee staffer continued, "I think the Credit Control Act might as well be repealed." This is the act which was invoked by Carter March 14 when he imposed limitations on new credit extensions by domestic banks. "The Fed will be in a much stronger and more independent position as far as monetary policy goes. It will be able to apply reserve requirements however high it wants. ... In the past, the banks, large and medium-size, could always threaten to withdraw from the Federal Reserve system if things got too rough. Now that threat is meaningless."

## **Agriculture**

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### **WorldWatch pits food sector against fuel**

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Worldwatch Inc., the private research group which specializes in doomsday predictions about world food and resource shortages, has come up with a new one. A new study by the group, entitled "Food or Fuel: New Competition for the World's Cropland," warns that a race is underway between the people of the Third World and Western automobiles for available food and feed-grains. "As countries turn to alcohol distilled from agricultural commodities

as a source of fuel for the automobile, more and more farmers will have the choice of producing food for people or fuel for automobiles," writes World-Watch President Lester Brown.

Brown reports that Brazil, currently the world leader in gasohol production, may be the first to have to make the choice between grains for fuel or food use. Currently, alcohol fuel accounts for 14 percent of the country's automotive fuel; by the end of 1980 it is expected to make up 20 percent. Of the ambitious U.S. gasohol program, Brown notes that it takes roughly one-quarter to feed the average Third World person per year, while running a typical American auto entirely on ethanol from grain would require almost eight acres. The advanced sector and Third World are in a race for scarce world grain supplies.

Whether or not it is Brown's intention, his study proves how costly and wasteful—in terms of the amount of grain required to produce alcohol fuel—gasohol is. The fallacy in the study is the assumption that energy is scarce and that we need gasohol in the first place.

## **Britain**

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### **'A banana republic without the sunshine'**

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British Chancellor of the Exchequer, Sir Geoffrey Howe, presented the Thatcher government's budget for the next four years to the Parliament on March 26. The budget proposals are as gruesome as leaks earlier in the week hinted, and were presented together with an "economic outlook" for Britain that projected a 2.5 percent drop in output of goods and services for the coming year and no more than .1 percent growth over the next four. Sterling dropped 3 cents on hearing the news.

Instead of just freezing public ex-

## Briefly

● **DAVID ROCKEFELLER**, Chase Manhattan Bank chairman, told a London press conference that "Carter's interest rate policy should finally tip the U.S. economy into a real recession, as opposed to a pseudo-recession that never materialized. Then contraction will start to bite. No real recovery is possible until there is a real recession." Rockefeller predicted interest rates would fall but couldn't say when.

● **MARGARET THATCHER**, the British prime minister, is in trouble within her own party over economic policy, friends say. A well-placed Tory source says, "She's lost the support of the solid right over Rhodesia, and most of the intake of new Tory MP's has been from the left wing. She might face a leadership challenge within eighteen months." Right-wing Tories think Thatcher didn't go far enough in last week's austerity budget.

● **SHEIKH YAMANI** told a London press conference March 25 that the West should remove all environmental constraints on nuclear energy, as part of a plan to "move the world from the edge of the abyss." Other points include financial and technological help to develop energy resources in the Third World, and stabilization of the oil market.

● **WEST GERMAN BANKERS** see bad times ahead for America. One said, "Everyone has moved into short-term dollar investments, and as soon as any bad news hits the markets, there will be a terrible crash which will affect the American banks.

● **JAPAN** will dismantle a government-subsidized corporate consortium doing research in semiconductors at the end of March due to pressure from the U.S. that this constituted unfair export subsidies.

penditures, Howe and Thatcher have made actual cuts centering in housing, education, health, and manpower training. Among the most draconian measures is the taxation of unemployment benefits and the slashing of benefits paid to the families of striking workers. Further, health service and dental work charges will be raised, and prescription costs boosted once more—to a level five times higher than 10 months ago when the Conservatives came to power. The gasoline tax was boosted 22 cents, and the tax on a bottle of whiskey was pushed up by \$11.00. In a blatant effort to soft-sell the growing shortage of decent residential housing, the budget contains tax relief for those who rent out part of their homes.

Removing cost-of-living escalators from pensions—first for public-sector pensions—is under study. The budget proposals are formally subject to approval, but the Conservatives' 43-seat majority in the House of Commons assures their passage.

### Trade

## U.S. Steel's trade war gambit

European steelmakers have no intention of cutting the price of steel they ship to the U.S. market, following the suspension by the U.S. Commerce Department March 21 of the trigger price system for imported steel. The suspension of the trigger price, which for the past two years has established a floor for the price of steel imports entering the U.S., followed the filing by the U.S. Steel Corp. of a massive anti-dumping suit against the European companies. It was understood when the U.S. Treasury established the trigger price system in January of 1978—as an alternative to the frequent suits filed by U.S. steel companies—that if any of the U.S. com-

panies were to initiate major new anti-dumping suits, the trigger price system would be suspended.

U.S. Steel filed a formal complaint with the Commerce Department and the International Trade Commission March 21 against seven members of the European Community—Britain, France, West Germany, Belgium, Italy, the Netherlands and Luxembourg—charging them with selling 4 million tons of steel in U.S. last year at prices below those charged in Europe.

"We are in the process of preparing our defense against U.S. Steel's charges," a New York representative of Thyssen, the West German steelmaker, commented in an interview. "We do not believe that we have 'dumped' steel in the U.S., and we are preparing the numbers that will clear us of the charges. ... The European steel companies will not be lowering the price of steel exports to the U.S. following the cancellation of the trigger prices. That would only lead to more anti-dumping suits and trade war. That sort of thing seriously hurts world trade. Besides the U.S. market is very important to us, and we don't want to endanger our position here."

Some observers say that U.S. Steel initiated the dumping complaint—despite the lack of incriminating evidence—to deliberately precipitate trade war. In an atmosphere of trade war and price cutting, U.S. Steel would be in a position to shut down more of its aging plants on the pretext of the financial damage done to the company by "cheap foreign exports," and it would at the same time be able to grab a greater market share and buy up weaker steel companies who would be bankrupted by the price war. Last November the U.S. Steel Corp. announced plans to "streamline" its operations by shutting down major facilities and eliminating 13,000 employees, and has since run into trouble with the United Steel Workers Union and the communities which depend on steel for their livelihood.

## U.S. ruling circles are in deep trouble

by Criton Zoakos  
Contributing Editor

Readers and associates of the *Executive Intelligence Review* have been intimately familiar with the unraveling of crises and debacles in virtually every policy domain of concern to the Western world since at least Jimmy Carter's ascension to the presidency. Over two years ago, this review identified the underlying assumptions and philosophy of the Council On Foreign Relations *Project 80s* as the cause of future crises and debacles, both those that have already befallen us and those yet to come.

As of last week, the small but influential circle of the *EIR* and its clients, subscribers and readers is no longer alone in its evaluation of the depth and causes of the current dramatic world crisis. We have been joined in our estimate by a group of people who on the whole could hardly ever be expected to find themselves on the same side of any issue as ourselves—namely, the very inner sanctum of power and policymaking of the Western world which has been firmly in control since the Treaty of Versailles!

Below we reprint the most characteristic howls of agony which have emanated from this Olympian crew during the past fortnight, prominent among them the essays by George Ball, McGeorge Bundy and others. Cautioning the reader, we point out that these gentlemen's coincidence of views with us is limited to the very narrow and barren area of mere acknowledgement that a very deep crisis indeed is now before us and the world. The crisis is indeed so profound that it is directly threatening the very rule of this now so profoundly disturbed crew of Olympians.

We are also publishing below an extremely important essay by Contributing Editor Lyndon H. LaRouche, Jr. currently running for the Democratic nomination for President of the United States. Mr. LaRouche's argument represents a *tour de force* in its application of a certain fundamental scientific principle in matters of basic policymaking. Mr. LaRouche argues against his "Olympian" interlocutors, that the single principal cause





*George Ball presides over a meeting of the Council on Foreign Relations' "Project 1980s" study group.*

of the failure of their policies is located in the fact that they, the policymakers, as a group have utterly failed to comprehend the dependence of policymaking on that principle of science which Plato calls the "hypothesis of the higher hypothesis." This failure of comprehension accounts for both the economic and monetary debacle now plaguing the institutions associated with the IMF, World Bank, etc., as well as the failure of the military-scientific posture of the Western world.

The Platonic "hypothesis of the higher hypothesis" led Mr. LaRouche to formulate a sophisticated thermohydrodynamic model of economics based on Neoplatonic Riemannian mathematics back in the late 1950s-early 1960s. This theory of economics also defines itself as the science which is capable of discovering and ordering those areas of fundamental research in natural science in which future theoretical breakthroughs must occur. Therefore, Mr. LaRouche and, later, his associates in the *Executive Intelligence Review* were in a position to foresee and dissect the oncoming world crisis from a competent, qualified *theoretical* standpoint. Our opponents and interlocutors from "Olympus," however, were not capable of such theoretical foresight and insight. The fact that they started howling about the crisis only last week is not to their credit. When empirical facts started hitting them over the head, then they started howling. These were empirical facts which our "Olympians" persistently over the past few years

claimed to us and to intermediary third parties, could never occur. They have, however, occurred.

The fact that "Olympus" is now howling is no consolation. Its howling is still proof of their crass, unrepentant *empiricism*. If that fundamental flaw in outlook is not corrected, if "Olympus" does not submit to the higher potency and the higher sovereignty of science, then their mere terrified acknowledgement of the present world crisis will not make that crisis go away.

### **Why did they howl?**

But what were the facts that made Olympus howl last week?

Last week, the Soviet delegation walked onto the premises of the Permanent Committee on strategic arms negotiations in Geneva and unilaterally announced that a) the U.S.S.R. will not consider itself bound to the limits prescribed by SALT II because of United States failure to ratify that treaty; and b) the U.S.S.R. will unilaterally remove 50 percent of their anti-ballistic-missile defenses around the city of Moscow—without further explanation.

This Soviet move occurred amid intense and persistent reports in virtually every NATO intelligence outfit, that the Soviet Union is now preparing to deploy *within 12 to 16 months* sophisticated high-energy beam weapons capable of destroying incoming intercontinental strate-

gic missiles in the stratosphere, as well as low-flying cruise missiles. It is also the generally accepted estimation of every NATO intelligence agency that the Soviet Union is approximately *six to eight years* ahead of the West in military-scientific research and development.

This development occurred while the Joint Chiefs of the American armed services, testifying before Congress, were painting a dismal picture of the state of our military, reporting hideous problems in R&D and weapons systems development, in the status of the current equipment, horrifying personnel shortages, extremely low morale, skill levels and combat readiness in the All-Volunteer Army. According to best estimates in military intelligence circles, if one assumes that in January 1981 an administration is inaugurated that is fully committed to

## West Germany's "incalculable" U.S. ally

Carter's policies are "incalculable" is the view of top West German officials all the way up to Chancellor Helmut Schmidt. The Chancellor was in the United States during the first week of March for what were termed cool discussions with President Carter. Later in an address before the Foreign Policy Association in New York, the Chancellor stressed the necessity for consistency, partnership, teamwork, and consultation in the Alliance.

This past week, the U.S. press, whose editorial boards nearly represent the membership of the New York Council on Foreign Relations, has taken to task the Franco-German partnership that has more and more assumed an independent stand vis-à-vis the "superpowers." The *New York Times* editorially denounced France's independent policies.

A swift response came on the pages of the conservative French daily *Le Figaro* by its foreign policy analyst Paul-Marie de la Gorce.

"The experience of the last months has in fact proven that efficiency is not necessarily on the side of the positions taken by the United States. ...France has better things to do than align itself on proposals defined by others. For the immense number of nations which do not want to integrate themselves into either bloc, France can be the interlocutor. ...Let there be no mistake; France seems to be the only country which can play this role. ...If this voice which still expresses itself were extinguished, there would not be any to replace it."

restoring American military strength, then, according to the most optimistic scenario, it would take no less than 10 years for the United States to restore the balance with the U.S.S.R. in terms of relative advantage. In short, according to these circles, assuming that such an administration came about, and also assuming that it would possess the basic knowledge of how to do these things, between now and the early 1990s, the U.S. will be getting deeper into the status of a second-rate power. And it may get worse.

Aside from the military situation, what impressed Olympus last week was the turn of events in the domain of the world economy. As Paul Adolph Volcker and the Carter administration are proceeding with the gameplan of "controlled disintegration" in the United States, continental Europe and the Arab world are fast decoupling from the arrangement and are moving into developing an international economic-monetary system around France's and the Federal Republic of Germany's European Monetary System. Announcements last week from the Bundesbank, the French government, numerous Arab governments and Austrian and Swiss banking authorities made it clear that most of this year's petrodollar surplus, namely, over \$60 billion, have already been committed exclusively through the continental European banking system to long-term industrial development deals involving Western Europe, Africa, the Arab world and the Soviet Union!

At the same time, all the above parties, including the critical Swiss banking sector, have progressed dramatically toward the objective of restoring gold to full monetary status—perhaps for some time after the West German Federal election this autumn.

If this continental European Grand Design comes to fruition, the hegemony of London-Washington (Olympus) over world affairs will be crushed, probably forever. Indications from the Soviet Union so far are that Moscow intends to facilitate this European Grand Design in every way possible. This combination of strategic-military and economic realities created the set of facts which made Olympus howl last week. Olympus is now looking straight into the abyss, the very same "erebos" to which ancient Greek pantheons were hurled after their defeat. What frightens them most about this abyss, the next 10 years of estimated Soviet military advantage, is the imagined, imputed or otherwise anticipated Soviet intentions and actions during a period in which the Soviets, unlike in any other period of their history, will be in a position to "call the shots."

If this Anglo-American elite fails to grasp the scientific principle in politics that LaRouche represents, they shall also fail to subject any other problem to scientific treatment, including what they temporarily perceive as their "Soviet problem."

## 'We're behind 'til 1990 no matter what happens'

*The following assessment of the U.S. strategic position was granted to EIR by a strategist at the Fletcher School of Law and Diplomacy who requested that his name be withheld.*

## 'We're no. 2'

# The strategists react to the Soviet advance

Strategic thinkers in the United States have responded to the report that the Soviet Union has reached the stage of deploying advanced E-beam antiballistic missile weapons with immediate proposals for military buildup and a reemphasis on scientific research and development. Unfortunately, the only commentary to point out that the key to military strength is a strong civilian economy did not appear in the United States, but in *East Germany* (see box).

The first thing we must do is get rid of Jimmy Carter. Carter is an unmitigated disaster. After he's out, we must concentrate on the strategic area, on making our command-and-control invulnerable to the Soviets and on showing the Europeans that we are consistent.

On the military side of things, the problem is easy to identify. Even with Carter out, we will lack sufficient military strength for years. We'll have to add \$50-\$60 billion per year in additional defense spending. The replacement costs alone for existing materiel will start running us \$60 billion, whereas now we only spend \$40 billion. To keep things moving, we'll have to up our spending each year by another \$20 billion. We have to upgrade our personnel, our navy, our conventional forces, our Rapid Deployment force in the Indian Ocean.

There's no underestimating how profound the crisis is



## 'Does Brzezinski not know?'

*The following is the analysis of Carter administration military policy, as embodied by National Security advisor Zbigniew Brzezinski, published by Gustav Hertzfeld in the current issue of the foreign affairs monthly of East Germany, Deutsche Aussenpolitik (German Foreign Affairs).*

Does Mr. Brzezinski not know that military strength today cannot be measured by the number of infantrymen, or horses for the cavalry, or number of guns, bayonets and pistols a country has? Can a country be militarily strong, if it is not strong economically, scientifically and technologically. . . not strong in those branches of industry which are in the lead of science and technology: nuclear energy, aerospace, shipbuilding, electronics? Does Mr. Brzezinski not know all of this, or does he not want to know it? If he doesn't know, then beware of a President who is advised by such an advisor and even takes decisions on the basis of such advice. Beware of the allies of a power which is acting according to such decisions. Beware of a world whose peace depends only on such advice and such decisions.

we are now facing. I don't know if we can ever re-achieve parity. We're number two right now, and the gap is widening. Given the fact that there is an 8-9 year lead time on weapons systems, and we've already had a 6-year delay on the MX missile, some of my colleagues think it's already too late.

If we do everything we have to do for the next 3-4 years, we can by 1985-86 *at the earliest* start re-establishing parity. Between now and then, things will be very precarious, but at least we won't be going downhill any longer.

We have no choice but to do this. The Soviets are producing E-beam breakthroughs toward new weapons systems. This is very frightening. So we must build up our military capabilities, and in the interim learn how to shut up and stop drawing lines. We have no capability of stopping the Soviets right now. We can't do anything militarily at the moment. Carter is just bluffing; if any moron in his administration were to think that we could use our nuclear capability as a way of stopping the Soviets in the Indian Ocean, they should be rapidly disabused of this idea: the Backfires (Soviet bombers—ed.) in Baku would blow our fleet to smithereens!

So we should keep our mouths shut for five years, restore the draft, do the spending we have to do. We'll be number two till 1990, no matter what happens.

### **'We're not matching the Soviets at all'**

*The following interview was granted to EIR by a retired U.S. military officer who is now advising the Reagan campaign. He requested that his name be withheld.*

**Q:** What concrete solutions are you proposing for the policy problems that we now find ourselves in?

**A:** We have to focus public opinion on the rapid decline of the American military. The decline has been very dramatic.

**Q:** Are you aware of the breakthroughs made by the Soviet Union in new E-Beam research? What kind of response should the U.S. have to such a development?

**A:** I'm aware of what the Soviets are doing. They are developing several exotic forms of long-range destructive weapons. To counteract this, the first step is to build up our Research and Development capabilities. The Soviets have succeeded by simultaneously investigating 8-10 different exotic systems, and then choosing 2-3 systems of choice. We have to do the same; we must match them in R&D. This must mean a stronger commitment on our part to the development of science and technology than has been going on in the past few years. We can't just try to match the Soviets in *one* field, that won't work.

**Q:** What else must be done?

**A:** We must as a second step build up our vertical silos around each of our Minuteman missiles, to regain the survivability factor we've lost through recent treaties with the Soviets. This will take a couple of years with a crash program. We must also get going on the MX system, which won't be ready in any case till 1986, and there won't be enough of them till 1987.

**Q:** What is the cost of all this?

**A:** An intelligent program will cost \$22 billion additional to the current budget for this fiscal year; \$45 billion added to the figure for 1981, and \$50 billion added for each year after that. This will mean, necessarily, reduction in expenditures elsewhere in the economy in the short term.

**Q:** How do you evaluate the current administration's military strategy approach?

**A:** What Carter is doing is a lot of declamatory posturing with nothing to back it up. He's bluffing, and he's going to get us into a war that we're going to lose.

### **Broken planes, and tank-killers**

*The U.S. press, government officials and military spokesmen have reacted to the news of Soviet breakthroughs in antiballistic missile E-beam systems with some irrelevant bluster and a good measure of plain fear. Two recent articles in the Washington Post on America's military position looked like this:*

**March 17, "Shortages of Parts Hamstring Warplanes":** About half the nation's first-line warplanes cannot fly because over the years the Pentagon has concentrated on buying new ones rather than fixing up the old ones.

This policy has forced mechanics to take the parts off one plane and put them on another, a constant process of cannibalization that the Navy figures takes up the equivalent of 610 men doing nothing else for one year.

Besides not being able to go to war, the high percentage of broken planes means that Air Force and Navy pilots must fly fewer hours, prompting many of them to quit in disgust.

...Only 53 percent of the Air Force's hottest fighter, the F15 Eagle, were ready for combat at any one time last year, and only 53 percent of the Navy's F14 Tomcat fighter. The percentages for forward-deployed aircraft, such as F15s based in Europe, were not much better...

**March 22, "U.S. Builds Tank-Killer for Europe":** The Pentagon's research chief said yesterday that the United States has developed a new family of weapons lethal enough eventually to offset the Soviet advantage in armor along the NATO front.

# The policymakers denounce their own policies



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**GEORGE BALL**

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*'We have driven our allies away'*

*Writing in the March 20 issue of the Washington Post, former Undersecretary of State George Ball had the following to say.*

You will find that America is now viewed from Europe and the Middle East—where I have just been—as a bewildered elephant that has lost its way and is stepping on the vegetables. Because our friends and critics are deeply worried, they do not, as in the past, derive malicious pleasure from our discomfiture; their comments are no longer bitter, just plaintive....

These incidents have only reinforced Europe's grave suspicion that the Carter White House shapes its policy in the context of a pre-Copernican cosmology, as though the Earth revolved around Washington. Even in that context, it appears to behave with little consistency, backing and filling in a jerky style. Meanwhile, no one can be sure just what line of policy it will follow next, or who is enunciating it....

What reaction could one expect from Europeans living next door to Moscow's military might when the president announced that he had suddenly changed his mind about the Soviet Union and now questions its good faith? How can they follow a leader with no consistent comprehension of the Kremlin's habits and intentions who overnight swings from a preoccupation with SALT and human rights to what they regard as an over-reaction to the Soviet invasion of Afghanistan?...

Yet those defections from the American policy line are only the beginning of a process; unless America moves frontally to halt Israel's settlement policy and stops fainting like an eighteenth-century heroine at any sign of Israel's displeasure we shall find ourselves alone with Israel against the rest of the world, while our allies negotiate separate arrangements that destroy any hope of a common Middle East policy.

That is only part of the persuasive disenchantment with America today. If we seem unable to handle our foreign relations with the wisdom expected of a leader, we seem equally inept with our domestic affairs that affect the prosperity of other nations. The dollar has fallen disastrously, inflation is vaulting. We continue to waste several times as much energy as other industrialized nations, and there is dismal feeling that we have lost control of our economic future...

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**McGEORGE BUNDY**

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*This is the outcome of our 'deep mistakes'*

*Washington Post reporter Lee Lescaze wrote on McGeorge Bundy's view of the Carter administration's predicament in the March 20 issue of that daily. We excerpt his comments below.*

"...Jimmy Carter is in danger of repeating the experiences of Lyndon Johnson and Richard Nixon during their campaigns to retain the presidency, and his political strategy could bring him the same short-term benefits and long-range troubles, former National Security advisor McGeorge Bundy said today.

My present concern is that President Carter, in what he has said and done so far about the Persian Gulf, may be poised uncertainly halfway between truth and concealment," Bundy said in a lecture at New York University.

In his failure to tell the whole truth to people during an election campaign, Bundy said, Carter's "posture is dangerously like Johnson's in 1964 and Nixon's in 1972."

...What Carter knows and has not fully told Americans, Bundy said, is that the Middle East oil problem is only partly a question of U.S. dependence on the oil cartel. What is of far more importance to the American people is the greater dependence of their closest allies—the Western Europeans and Japanese—on foreign oil.

Bundy argued that Carter can still tell the whole truth and, by doing so, win himself eventual political advantage for he would not then run the risk of following Johnson and Nixon to smashing victories followed by an inability to deliver on falsely nurtured hopes.

The foreign crisis of 1980 is authentic, but Americans run the risk of an "essentially inauthentic" presidential selection process because not only Carter but his rivals have not dealt sufficiently and openly with the problems ahead, Bundy said.

This year's political campaign, he said, need not follow the course of the Johnson-Nixon example. After the fall of France, Bundy argued, Franklin D. Roosevelt took strong steps and was not turned out of office. Neither were Harry S. Truman in 1948 after the Marshall Plan and the defense of Berlin nor Dwight David Eisenhower in 1956 after the Suez crisis.

Bundy predicts that Carter—or any other presidential candidate—would prosper this year by telling the truth as best he can.

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## THE NEW YORK TIMES

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### *'How dare these Frenchmen ignore our power...'*

*The following is taken from the New York Times' lead editorial comment on March 26.*

Washington has long since ceased to look to Paris for agreement or even sympathetic advice. These days it would be easier to push Elysée Palace through the eye of a needle than for any French President to be caught aligning himself with the United States. Echoing Charles de Gaulle, President Giscard d'Estaing has offered this explanation: "If France were to align itself with some other country's policy, then French policy would be simple, but it would cease to exist as such. Seen from the outside, France would become the province of a super-power."

Where then, after Afghanistan, does France really stand? In a recent interview, the French President sought

to make his position, in his phrase, "perfectly clear." Yes, he said, France regarded the Soviet invasion as "unacceptable," but no, it could not support the American countermeasures. This was not, however, a "neutralist" position, he added, because France remains a faithful member of the Atlantic Alliance.

This perplexed even the exegetes at *Le Monde*. The newspaper marveled that, by alliance, the President "did not mean alignment, just as solidarity was not incompatible with independence, which moreover should not be mistaken for nonalignment."

Mr. Giscard d'Estaing seemed to say that France was espousing French interests, a thesis neither novel nor shocking. What irritates many Americans, sometimes more than the substance of French diplomacy, is its manner. The French go to inordinate lengths to demonstrate that their courtship of Arabs owes more to the logic of Palestinian claims than to France's dependence on imported oil. French interventions in Africa are painstakingly represented as only disinterested assistance to former colonies. And so forth.

Such lofty diplomatic cant, to be sure, is not a French monopoly. The wavering signals of the Carter administration have themselves stirred doubts among the allies. Yet when Mr. Giscard d'Estaing asserts that alignment is demeaning, he says in effect that Washington can never count on a predictable pattern of support, however wise its course.

It is by the test of interest that the Giscardist design seems most flawed. Granted, France can profit from an "independent" role; by selling nuclear technology, regardless of the risk of proliferating weaponry; by gaining trade rewards from the Soviet bloc; by obtaining preferences from Arab oil exporters. But what gives France freedom to maneuver is the unspoken assumption that the Soviet Union will not treat Western Europe like Afghanistan. Without the security provided by the American connection and nuclear umbrella, there would be no Giscardism.

Even if Europe feels myopically safe, where is the wisdom in open rivalry elsewhere? Will an American retreat—and Soviet advance—in the Middle East strengthen France against OPEC? Does France gain from undermining Camp David and adding to Israel's paranoia? Are France's African interests secure without American attempts, however fallible, to contain Soviet competition?

There is also a more ominous long-term question. Driving an uncertain America into isolation may not disturb the Parisian psyche, but what might it do to Germany's mood and the bonds that tie Germany to France? Precisely to the degree that America is troubled, its European allies and, yes, dependents had best recon-

sider their deepest interests. Those interests could at least be symbolically affirmed if France "aligns" itself with the boycott of the Moscow Olympics. Lacking any such gestures, French negativism will feed an impatience ultimately destructive to the very independence that Mr. Giscard d'Estaing exalts.

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## THE NEW YORK TIMES

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### 'Poor America must produce or collapse'

*The following was the New York Times lead editorial March 23.*

Quick! How do Jimmy Carter and Ronald Reagan rate the strengths and weaknesses of America for the next four years? What would they do to prevent the deterioration of the Western alliance, or to contain and coexist with Soviet power?

We don't know either. Tuesday after Tuesday, in anointing these two men to vie for the leadership of the free world, Americans have been rewarding a cynical reclusiveness by the one and much simplistic nonsense from the other. You would think the nation's peace and prosperity depend now on Mr. Carter's alleged preoccupation with the Teheran hostages and Mr. Reagan's resolve to increase military spending and Voice of America propaganda. The President runs on a record that has found him on almost every side of every global issue. His likely challenger is a man who would rather fight than negotiate for the Panama Canal and threaten the Russians with every known weapon except a politically inconvenient grain embargo.

We are not now deploring the political process that dignifies this level of discussion; no system alone can guarantee intelligent debate. Nor should the despair of spring be allowed to sap all meaning from the choice next autumn; however drearily, it usually matters who finally wins. For the moment, we wonder only whether Americans are not secretly content with this political pabulum. It saves us all, as well as the candidates, from digesting a hard reality.

The neglected reality is American weakness—but not as measured in missiles, or captured diplomats or bungled votes at the United Nations. If these are significant at all, they are mere symptoms of a deeper infirmity. America is not in imminent military danger. Its economic potential, by almost every standard, remains pre-eminent. It is the most naturally blessed nation. It still

proclaims the most appealing ideology.

But increasingly, America lacks the wealth to satisfy its will. Rich as it is, it cannot afford the material and political ambitions, commitments and values that it embraced a generation ago. The Russians are no longer easily contained because they have matched America in military power. Allies are turning into rivals because some have overtaken America in both productive power and energy dependence. The rest of the world is no longer easy to pacify because it can now choose among rival benefactors, and parts of it are very rich besides.

There exists, in short, an imbalance between American means and ends in the world. That explains the true frustration in Iran, the vulnerability in Afghanistan, the rejection by Pakistan, the fear of imports from Japan. Proclamations of doctrine by Jimmy Carter and of superiority by Ronald Reagan are almost beside the point. So are efforts to distinguish "foreign" from "domestic" policies. Americans in 1980 face an overriding choice: either trim sail abroad and lower the standard of living at home, or rally the society for a mighty new surge of wealth-creating production.

As should have been obvious long ago, America's strength, except in war, depends entirely on its relative wealth. There can be no significant limit in the arms race, no detente and no containment, unless the Russians fear being outspent and outmaneuvered. They will not be outspent or outmaneuvered by the democracies until the allies can afford to curb their rivalries for trade and energy. There will be no stability in the weaker nations, as Mr. Carter asks, or even respect as Mr. Reagan demands, until they are earned with vast new programs of Western aid and investment. And there will be no reliable prosperity in America until all these foreign objectives are served.

An honest campaign would concede that large American ambitions have in fact been compromised in the years of our relative decline. China is now embraced as a virtual brother-in-arms. Indochina, like Eastern Europe, now invites mostly rhetorical interest. But an honest campaign would also recognize the inevitable connections between American freedom and wealth and between wealth and the resources and potential customers of Asia, Africa and Latin America.

The wealth of Europe and Japan should count on America's side of the ledger, but the allies are in a mood to accommodate to any oil price, and to other Afghans, unless they get a firmer demonstration of American direction and muscle. We can call them ingrates and go on consuming our wealth and adding to our missiles. Or we can debate the sacrifices required to revive our industrial power, the only meaningful coin in a peaceful world.

# Why America's elite is failing desperately

by Lyndon H. LaRouche, Jr.  
Contributing Editor

The recent statements by such figures as George Ball and McGeorge Bundy (reprinted above) reflect the growing concern among the "ruling families" of the United States that, despite their continuing massive effort at "total containment" of my electoral campaign, I am correct, and their policies are a failure even by their own criteria.

Typical of the current developments regarded as evidence of the failures of the "leading families" policies are the following:

(1) The neo-Malthusian policies of "controlled disintegration" of the U.S.A.'s and world's economy, institutionalized over the course of the 1970s, have turned out to lead into "uncontrolled disintegration" instead. The fact that the Carter-Volcker "austerity measures" of October 1979 have brought the U.S. dollar into the area of a 1920s-Germany-style hyperinflationary sort of collapse of the U.S. economy is one leading example of this.

(2) Despite the hysterical, lying campaign currently being run out of the Carter administration and most of the major U.S. news media, that U.S. high-technology exports to Moscow might help Moscow to catch up with the U.S.A. technologically, the fact is that Moscow is now way ahead of the U.S.A. in overall quality of deployed military capabilities in technology as well as in quantities, and that Soviet R&D is now deploying or on the edge of deploying militarily relevant technological breakthroughs way beyond anything of which the United States is capable at this moment.

(3) Now, in response to what most U.S. allies view as the outright lunacy of the Carter administration's and Kissinger's policies, western continental Europe plus Ireland is now in the process of breaking away from the dictate of Washington and London on economic and monetary policies. These developments in the economy and monetary fields are inevitably spilling over into other "centrifugal" manifestations.

In addition to the backfiring of Washington's and London's current economic and monetary policies, the often-cited symbol of the decay of the situation is that emphasized within Ball's statement: that present Washington-London policies are tending to leave the United States isolated, with no ally but the Begin-centered group in Israel.

None of the critics, including this writer, proposes that the United States ought to "abandon Israel." Israel's "1967 borders" are almost an axiom of policy for the U.S.A., and for most U.S. Allies. It is the secret agreements which Carter negotiated with Israel, under the mere camouflage of the "Camp David" dog-and-pony-show published documents, which are being challenged. The Begin government's use of those "secret agreements" as cover for proliferating settlements in the occupied Arab Palestinian West Bank is the issue, as Ball indicates, and as Secretary of State Cyrus Vance's confrontation with Senators Church, Javits, and Stone also reflects.

However, important as the Israel policy is in the whole configuration, the question of Israeli policy is a product and a symbol of a larger area of policy-failure, an area of blundering which would be a policy failure whether or not there were an included question of U.S. policy concerning Israel.

The root of all of these failures is the neo-Malthusian political-economic policy. All other problems are either directly a by-product of an incompetent set of political-economic policy-making criteria, or reflect the errors of the same "geometry" of mental outlook reflected in the adoption of those incompetent political-economic criteria.

Therefore, I shall now present a rigorous statement of the roots of the political-economic blunders. Following that presentation, I shall append to this report a few



indicative comments on the nature of the correlated sort of blunders of political assumption.

The following is no digression.

All "economics" as presently taught in all known university programs and as represented by both policy-makers and news media generally, is wholly incompetent. It is reliance on those sorts of incompetent doctrine which is the most significant of the immediate causes for the adoption of the neo-Malthusian policies institutionalized over the course of the 1970s.

The errors of these incompetent political-economic teachings are best examined on two levels.

The first kind of axiomatic blunder of those economic teachings is typified by the intrinsic fallacies of the currently used national income accounting method, the so-called GNP system of accounting.

The second category of axiomatic errors in current academically-approved political-economic teachings involves the "dynamics" of the economic process, as distinct from the incompetence of the accounting categories presently used.

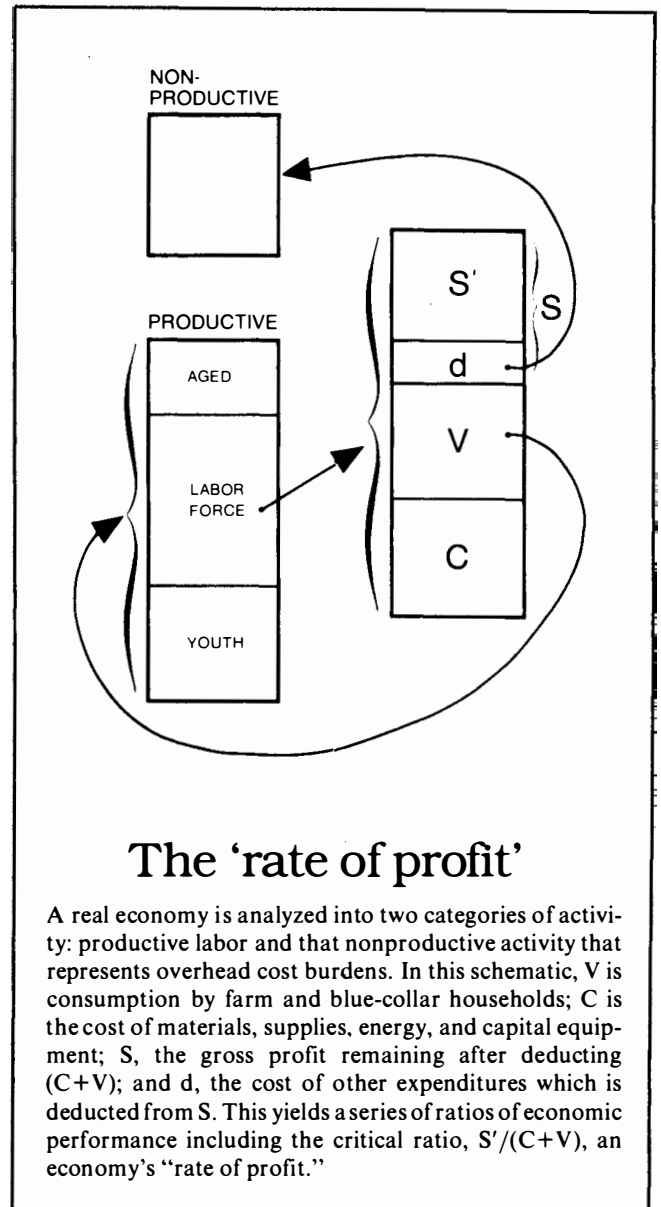
A real economy is properly analyzed into two principal categories of activity: (a) that productive labor (e.g., farmers and "blue-collar labor") which produces a useful, tangible form of product for consumption either by households or as capital goods of agricultural or industrial production. (b) that non-productive, remaining component of employment and economic activity, including necessary administration and services, which represents the "overhead cost burdens" of the economy as a whole.

Those combined elements of waste and of necessary administration and services combining to compose category "d" for analysis are paid for out of the gross profit produced by the total economy's production of consumable, useful forms of *tangible* goods.

"Debt service," for example, is not an addition to gross economic output, but is a deduction from either gross profit or household income.

This breaks the proper analysis of an economy down into the categories derived in history of their usage from David Ricardo and earlier reporters: V = direct consumption by households representing farmers and "blue-collar labor"; C = combined costs of materials, supplies, energy and fixed productive capital equipment; S = the gross profit remaining after deducting (C+V) from total current tangible output of useful goods; d = costs of other expenditures, including those for combined governmental and private administration and services.

This yields a series of ratios of performance of the economy, with special emphasis on the critical ratio of first-approximation:  $(S-d)/(C+V)$ , or, stated more conveniently,  $S'/(C+V)$ .



This key, first approximation ratio is otherwise known as the "rate of profit" for the economy *taken as a whole*.

If one compares the estimates of growth of the U.S. economy given as the usual GNP reports with the revised interpretation realized by re-sorting GNP data into the  $(S-d)/(C+V)$  form, the difference in the two pictures indicates quite simply and accurately what is fundamentally worse than useless in the kinds of academic economics now generally used for policy making.

In summary, the first general, axiomatic error of the political economics now being taught in our universities and generally used by policy makers is that it is based on a totally incompetent set of rules of accounting practice.

## First level of dynamic analysis

The now-classical, competent approach to analyzing the dynamics of a modern economy is U.S. Treasury Secretary Alexander Hamilton's 1791 "Report to Congress on the Subject of Manufactures." Hamilton proves that the substitution of "artificial labor" for labor in the processes of agriculture and industry is the sole source of wealth of nations—directly and totally refuting the false assertions of Adam Smith's "Wealth of Nations."

A rise in the productivity of labor is expressed in accounting terms as a rise in the value of the ratio  $S/(C+V)$ : a rise in the rate of *gross profit* in the economy taken as a whole.

In a well-managed economy, the rate of growth of combined waste plus administration and services is slower than the growth of the gross profit of the economy as a whole. For such a case, we have a rise of  $S'/(C+V)$  as a correlative of rising values of  $S/(C+V)$ .

This advance in both the rates of profit *for the economy taken as a whole* is causally correlated with a rise in another accounting ratio, the ratio of C to V ( $C/V$ ) for the economy taken as a whole.

In order to permit investments which cause C to increase relative to V in this desired way, and since new capital investments must come from  $S'$  *for the economy as a whole*, the ratio  $S'/(C+V)$  must rise in correlation with the rise of  $C/V$ .

These increases are the result of advancements in technology, and in the quality of productive-cognitive skills of the labor-force. Therefore, the absolute value of per capita "V" must rise relative to the average per capita value of "V" for the preceding period of a lower national rate of profit.

These rises in the average per capita value of "V" can only be reduced, in first approximation, to the energy equivalent. The increase in the rate of energy flow through household consumption per capita for households of productive labor has the physical significance of what we term "energy flux density."

The combined energy throughput and costs of other productive capital per capita in the production process is similarly reduced to its energy flux density value per capita for productively employed labor.

S and  $S'$  are then, similarly, restated in terms of energy flux density.

Situating this as a relationship of society to "nature," we derive the following, additional considerations.

The rises in energy flux density which correlate with preconditions for rising values of  $S'/(C+V)$ , itself a ratio of energy flux densities, correspond to the notion of a rising "reducing value" in ordinary physical chemistry. Man organizes nature according to his needs for enhanced survival and existence by increasing the "reducing power" of society with respect to nature generally.

This requires society's capture of increasing amounts

of energy from sources which represent increasing energy flux density for mankind. In other words, the primary "natural resource" of all societies is *an increase in the energy flux density* of the energy sources utilized as basic energy sources by the society.

## The physical significance of technology

As I noted in my recently published *Basic Economics for Conservative Democrats*, the form of the increased energy flux density required by society could not possibly be merely more energy at higher-temperature equivalents for energy sources. Otherwise we could improve society's productivity by simply cooking its labor force. It is energy *organized* in some definite, usefully controllable way which man requires as the output of sources of increasing energy flux density.

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*"If the efficient principles governing physics more profoundly lie outside the 'physical world' as British physics delimits that world, in what domain do those principles then exist? In the 'metaphysical,' clearly enough. ... Carried to its logical conclusion, one has the British physicist transformed, as is so typical, into a fanatical reader of tea leaves and habitue of seances."*

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The form of that organization of energy flux density we may term "technology." Increases in the rate of profit of society must therefore take the form of an equivalence between  $S'/(C+V)$  and advances in *applied technology*—or, what Hamilton defines in his report to Congress as "artificial labor."

This deduction brings us to the crux of the most fundamental error made by even the most relatively advanced "thinktankers" among British and U.S.A. policy-shapers today.

Some of these "thinktankers," after studying my own writings as well as those of others, have recognized that energy flux density must be considered in relationship to profit ratios for the economy as a whole. However, even those circles commit the error of measuring the energy flux density in what are called the "reductionist" terms of joules per square centimeter of the cross-section of the energy source.

The energy we are considering must be in the realized form correlative to  $S'/(C+V)$ . Therefore, the energy to be taken into account can not be energy flux density measured merely in a simple quantum of heat equivalent, such as joules. What must be measured is the *negentropy*

of both the source used, and of the mode in which it is utilized productively.

That fact ought to make it clear that we must interpret technology more fundamentally. Advances in technology must be interpreted as advances in the realized benefits of basic advances in scientific knowledge. It is the promotion of advances in basic scientific knowledge, combined with policies for realizing the technological outgrowths in production of such science advances which is the root issue of economic policy, and therefore of analysis of the outcome of the acts and acts of omission of economic-policy practice.

If this seems a straightforward point, that impression is false. We are now at the core of the mistaken thinking which permits the potentially catastrophic failures now being witnessed in consequence of the policies adopted by the "ruling families" of the U.S.A.

### The physics of physical economics

The facts just summarized above show that a scientifically competent modern "economics" must be a branch of thermodynamics. Not just any sort of thermodynamics. It must be a variety of hydrothermodynamics which is centered around Helmholtzian "free energy" as the fundamental parameter.

The Riemann-LaRouche computer application "model" of economic processes currently derives the required parameter in the following way.

First, four empirical parameters are combined in the following way to derive the single, required sort of parameter:

(1) The average energy density of input and output through the economic process is analyzed as and correlated with (2) the ratio  $S'/(C+V)$ . What is compared is the rates of change of the two parameters.

(3) Total output of tangible, useful product (e.g.,  $S+C+V$ ) is analyzed as and correlated with (4)  $S'/(C+V)$  as a ratio of the distributed portions of that total output. Again, what is compared is the rates of change of the two parameters.

These four rates of change are correlated to define a four-dimensional phase space, for which the rate of change of  $S'/(C+V)$  in energy flux density terms of measure and in terms of ratios of output serve as the two-dimensional phase space of reference for a variety of analytical applications. In general it is the correlation of the rise in energy flux density with rises in the ratios expressed in the form  $S'/(C+V)$  which defines the notion of *negentropy* we require.

In other words, a ratio  $ES'/(C+V)$ , for which  $E$  represents energy flux density.

The causal sequence embedded in the four-dimensional phase space is as follows.

An increase in the ratio  $S'/(C+V)$  for a correlated

rise in  $E$  (energy flux density) is a rise in the *potential* for an advance in technology. This *potential*, if realized in practice as combined basic scientific and applied technological advances, causes a rise in the energy flux density,  $E$ , and an improved realization of  $E$  in the form of a rise in the value of the ratio  $ES'/(C+V)$ .

Thus, the mediating action, the causal connection, is the advance in science-technology which subsumes rises in  $E$ ,  $ES'/(C+V)$ ,  $(S+V+C)$ ,  $S'/(C+V)$  as correlated developments.

Science-technology is *transfinite* with respect to the parameters of the four-dimensional phase space.

Using the specialized language of the old Göttingen University circles, this determining, *causal* existence is not merely *methodologically* transfinite; it is *ontologically* transfinite in the sense associated with Bernhard Riemann's arguments.

Therein lies the ultimate root issue of the axiomatic fallacies of the most sophisticated "think tankers" informing the "ruling families."

### Cambridge-Aldermaston-Princeton kookery

The best-informed science circles of Cambridge University's Trinity College have been notorious since the 1590s and John Locke's time for the high percentile of leading British scientific figures backing and involved deeply in wierd necromantical and other odd cultisms. This pathetic tradition is dated inclusively from the case of Sir Isaac Newton, whose chest of papers exposed him as devoting most of his laboratory efforts, not to physics, but to lurid alchemical cults.

The leading figures of British science after James Clerk Maxwell were shamelessly public about their occupation with necromancy. Maxwell's physics is largely to blame for this continuing efflorescence of kookery around such precincts as Cambridge, Aldermaston, and Princeton.

Although Bernhard Riemann's work was extensively plagiarized by Maxwell for producing his own works on electromagnetism, the only reference we have so far discovered to Riemann's work in Maxwell's literary remains is a passing allusion in his correspondence. In that source, Maxwell emphasizes the explanation that he has deliberately excluded acknowledgement in his work of all physics involving "geometries other than our own." Maxwell is referring to his factional adherence to the British policy of libelling and deprecating what the British term "continental science."

Although British physics permits use of certain kinds of formal non-Euclidean geometries, it specifically prohibits acknowledgement of any notions of physical geometry congruent with the Leibniz-Riemann-Cantor current of hydrothermodynamics, the physical geometries associated with "multiply connected manifolds."

However, since modern physics centers around phys-

ical phenomena echoing the reality of such multiply connected manifolds, Maxwell and his followers were obliged to attempt to fit those realities within the bounds of the cruder physical geometries tolerated by the British and their factional allies. Hence, we are exposed to such almost mystical constructions as the notion of the "complex domain." "Complex domain" is a way of attempting to describe mathematically the kinds of phenomena which correspond to multiply connected physical manifolds without admitting the fact that such manifolds actually exist.

If the efficient principles governing physics more profoundly lie outside the "physical world" as British physics delimits that world, in what domain do those principles then exist? In the "metaphysical," clearly enough.

Similarly, the demonstrated ability of minds such as Riemann's to comprehend notions which correspond to that "metaphysical domain" must be a mental power which also lies in the "metaphysical domain" of mental life. Once consistent adherence to Maxwell's sort of obsessions concerning physical space is carried to its logical conclusion, one has the British physicist transformed, as is so typical, into a fanatical reader of tea leaves and habitu  of seances.

### **The Soviet algorithm paradox**

Recently, we in the United States and Western Europe have been informed of Soviet scientists' development of a new sort of algorithm, which permits efficient solution of matrices which were earlier considered almost insoluble even on the latest generations of computers—because of the calculation-times involved. The notion of this sort of algorithm is elementary—so elementary it can be demonstrated to any grammar school child who has progressed through an appropriate program in education in geometry of conics. For example, the characteristic "flexible" triangle which generates the construction of an ellipse is the characteristic of the ellipse so generated. This Soviet development is viewed by many as correlated with the ability of Moscow to use its available, simpler computer systems to accomplish tasks which are presently either matched only by the most elaborate U.S. systems or still insoluble by practical means.

The point is this. Although there are strong indications that Soviet science does not yet accept the Riemann-Cantor proposition that the causal ordering of physical space is ontologically transfinite, all known crucial breakthroughs in Soviet plasma physics indicate a strong emphasis on the Hilbertian notion of "*methodological transfiniteness*." Although the most accomplished U.S. scientists are strongly influenced by the German traditions of "continental science," U.S. science education otherwise adheres predominantly to the British factional

outlook. The promotion and toleration of the "quark" cult is an illustration of the problem, quite apart from the fact that the Carter administration has shredded into nonexistence all but a handful of U.S. basic scientific research capabilities. The degeneration of British scientific thought, combined with the deepening influence of British ideology over U.S. teaching institutions and scientific communities, is stripping the United States of the capability of producing scientific workers capable of matching the competence of Soviet science progress.

The perplexity of many U.S. researchers, now attempting to "crack" the Soviet-reported algorithm, is a symptom of the sort of intellectual decay we have indicated.

We are not praising Soviet science. Epistemologically, Soviet science has progressed no further than German and French "continental science" had defined methodological progress earlier during this century. The point is that Soviet science is maintaining the general level of excellence of the Paris-G ttingen-Petrograd tradition of the 19th and early 20th centuries, backing this excellence with Moscow's continued policy of increasing support for scientific and engineering contributions.

The discrepancy arises because the United States, under British ideological influences, is degenerating in quality of production of new scientists at the same time that the forces controlling the Carter administration's policies (in particular) have been gutting U.S. basic scientific capabilities quantitatively over the past decade and a half.

Hence, if leading U.S. circles look at the growing advantage of Soviet over U.S. scientific and technological practice in advanced realms, and view the lessons of this evidence properly, they would be obliged to mobilize themselves to reverse not only the quantitative but the qualitative decay of U.S. basic science and research and development institutions.

If they understood the implications of that narrower problem of present U.S. policy, they would begin to comprehend the reasons for their desperate failure in political-economic policy-making.

### **Back to Plato**

The method of "continental science," from Cardinal Nicholas of Cusa's writings on Archimedian science through Leibniz, Monge, the Carnots, Riemann into Klein, Hilbert, Courant, et al., is a direct copy of Plato's conception of the method associated with the notion of the "hypothesis of the higher hypothesis." That method is thus equatable with the notion of "*methodologically transfinite*" of Hilbert et al. at the turn of the present century.

Plato went further.

Plato's dialogues include the rigorous proof by ar-

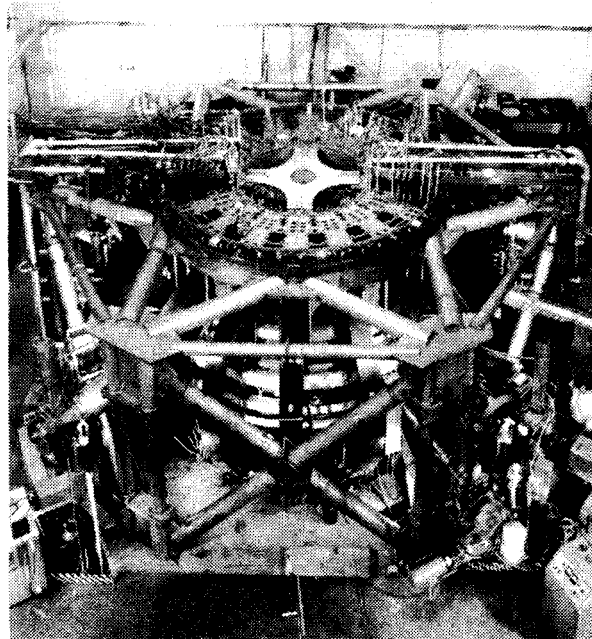
## A high technology example

Tokamaks, lasers, and other fusion reactor designs represent the "technological application" of an energy source currently being investigated by scientists working at the frontiers of physical science. That source is the product of the fusing of the ionized gases of a plasma under very high temperatures and pressures. It is the sun's energy source—brought to earth.

Fusion plasmas under particular conditions form highly organized structures capable of containing extremely high energy densities. The fusion reactor design capable of organizing this energy in some definite, usefully controllable way which man requires would massively increase the energy-flux density of the physical economy.

A useful contrast is gasohol production. The structure and energy content of grain is organized in such a way as to promote protein production in animals. The production of gasohol would in fact break down these organized structures in order to produce the alcohol component of gasohol, lowering even more the energy-flux density of the economy.

The root issue of economic policy making is not only the promotion of advances in basic scientific knowledge (like plasma physics), but the realization of that knowledge in the form of advances in applied technology.



Princeton Large Torus tokamak.

gument that if we show that the ordering of the universe corresponds to an underlying adducible lawfulness equal to the notion of the "hypothesis of the higher hypothesis," then the "primitive substance" of the universe must be a real, efficient being whose nature is coherent with the implications of the notion of that higher hypothesis.

This latter rigorous demonstration in Plato's dialogues is most familiar to modern man by way of the doctrine of "consubstantiality of the Trinity," and "consubstantiality of divine and mortal" in Christ. The most direct of the Apostolic statements to that effect is given in the gospel of St. John. In that location, the Logos (St. James version: "word") of the opening verse is the strictly Platonic notion of the ontological reality of the "hypothesis of the higher hypothesis." It is for related reasons that Christianity (like the Judaism of Rabbi Philo Judaeus, or the Islam of ibn-Sina) is rightly termed "Neoplatonic."

As the writings of numerous among the Patristics, as well as the *de non Aliud* of Cusa and the *metaphysics* of ibn-Sina show, this Neoplatonic conception of Logos and God is fully efficient with respect to physical science qua physical science. Conversely, since British ideology bitterly rejects Neoplatonic method, British theology tends to be intrinsically Gnostic, rather than Christian or Judaic-in-fact, and British experiments with Christian theology more often produce Gnostic-like, irrationalist cults than actual continuations of Apostolic Christianity.

This leads us directly back to the problem we associ-

ated with the efficiently causal principle of science-technology in the physical thermodynamics of economic processes.

In heathen theology, the notion of "man in the image of God" is at best a crude anthropomorphism like the Olympian cultism of the pagan ancient Greek mythologies. In apostolic Christianity, "man in the image of God" defines God as a universal creative intelligence consubstantial with the universe, and defines man's likeness to God as expressed by the perfectible powers of human creative intelligence. For purposes of empirical investigation, the isolatable expression of man's creative intelligence is most readily obtained by focusing exclusively on basic progress in scientific knowledge.

The point of such empirical studies is to differentiate the instances in which man, like a lower beast, shows the ability to produce learned behaviors, or simply, like a beast, exhibit the productive behavior of his ancestors, i.e., in a zero-technological growth form of society, man loses the practice of that which locates man as in the "image of God," the rule of his changing, perfectible practice through creative intelligence's more profound mastery of the lawful ordering of the universe: the production and assimilation of fundamental scientific discovery. To focus on that which distinguishes "man in the image of God," we must isolate those empirical data which pertain solely to qualitative advances in man's scientific knowledge, or some equivalent manifestation of creative intelligence.

The “science-technology ‘factor’ ” which proves to be the primitive determinant (cause) in the physical hydrothermodynamics of economic processes is plainly, the same reality.

This brings us to the crucial epistemological issue. Is this “factor” of “scientific-technological progress” merely an ideational construct, or does it correspond to a reality we must treat as a kind of “physical reality”?

If the creative action of the human mind in causing negentropic transformations in a physical hydrothermodynamic economic process is efficient—as it certainly is efficient—then it must have the ontological reality of a “physical cause.” Otherwise, like the notorious Cambridge University cult-kooks, one must assume that causality in the entire universe is ruled by a non-material, “nonreal” *deus ex machina*. Only the Platonic/Neoplatonic method enables us, at such points of investigations, to preserve the notion of a lawfully coherent universe. From the standpoint of empirical evidence, then, any scientific method but that in agreement with the Platonic/Neoplatonic method is scientifically absurd!

### Neoplatonic physics

The correlated implication of the foregoing discussion is that the notions of causal efficiency attributed to the “scientific” activities of the creative work of the human mind are not peculiar to the human mind, but that that causality is *ontologically real* in the universe apart from the action of the human mind. In other words, our universe is not primitively composed of scalar magnitudes of “energy” per se. Rather, the phenomenon of “energy” expressible in such terms of discrete quantification is itself a *determined relative “ephemeral”* in Plato’s sense. The primitive substance of the universe is not a “simple”—as the reductionist notion of “energy” is a simple. The *primitive substance* of the universe is of the form of *negentropy*: a “non-simple” sort of “primitive substantiality.”

For most persons, this notion is readily acceptable as a matter of Apostolic Christianity’s Neoplatonic theology. However, the Christian, or Jewish heir of Rabbi Philo, who accepts that notion of “primitive universal substantiality” for theology, finds it most troublesome to situate the same notion within the domain of physics *qua* physics. On “Sunday” and like devotional moments of the week, our average citizen accepts a Neoplatonic notion, that his or her universe is and is governed by a universal being in the form of creative intelligence. In his or her day-to-day life, the same Christian, Jewish or Islamic citizen is either a pagan irrationalist (a student of horoscopes, for example) or simply an agnostic or atheistic believer in a universe made up of irreducible, simple little sub-microscopic “particles.”

Dante Alighieri’s three-canticle “Commedia” explains the ordinary such citizen’s difficulty: in everyday

life, that citizen is a man or woman of the “Commedia’s” “Purgatory” canticle. He or she intends to be subject to a conscience informed by higher considerations, but is “down to earth” in the sense of dedicating daily practice “in the world” to the goals of “earthly Paradise.” In his everyday, grabbing life, the citizen is fixed upon the relative ephemeral objects of sensual appetites, relegating the real universe to be the preoccupation of his or her “after-life.” He or she is self-esteemed as a “practical fellow,” holding his paw securely around the nut of lust in the monkey-trap of simple day-to-day greed. To see the objects of lust, the riches of “earthly Paradise,” for the relative ephemerals they are, is beyond the will of our fellow in Dante’s “Purgatory.”

The idea of willfully steered negentropy creating lower forms of energy and of matter is to such a fellow in “purgatory” an impractical notion, a notion he or she suspects of being downright metaphysics.

Yet, in point of fact, the progress of plasma physics (and related kinds of biological inquiries) has brought mankind’s knowledge and power of practice to the point that we cannot progress one inch further in science—no matter how desperately we scratch and claw to do so!—unless the working scientist views the experimental phenomena of plasma physics not as “collective actions of particles,” but from the standpoint of the notions associated with the hydrothermodynamics of Riemann and Helmholtz. At this same time, we discover that we cannot solve the urgent problems confronting us in economic processes unless we effect the scientific breakthroughs such a change in epistemological standpoint implies.

Human society can no longer survive in the “purgatory” associated with the physical notions associated with Newton and Maxwell. It must now move above “Purgatory” to “Paradise,” or soon descend into the “Inferno.”

Is this relevant to “practical matters of economic policy”? It is decisive.

### The “Olympian” ruling families

Most of the “Western World” is ruled by a collection of powerful “families.” Those persons who deny this fact are either our ordinary citizens, both uninformed and sorely misinformed as well, or, if they represent influential circles, are liars.

The wretched Aldous Huxley’s novel *Brave New World* is not far off the track in describing the way the world, or at least most of it, is presently managed by these ruling families. There are those few who leave the ranks of the ordinary, ignorance-bladen folk to go off to the “islands” of policy-making. There are those witting agents of the “families,” like Bertrand Russell or Aldous and Julian Huxley, for example, who remain “in” general society as “controllers,” all the way down to your ordinary sort of U.S. president or leading U.S.

senator, who is merely a “hired gun” in office for the families which actually control the United States at this time. Then, there are the uninformed, misinformed, and manipulated ordinary folk, of the sort who actually believe that John F. Kennedy, or Lyndon B. Johnson, or Richard Nixon, or Gerald Ford, or Jimmy Carter, are or were actually presidents of the United States, or that Governor Ronald Reagan, if he were elected, would actually be a president of the United States.

So, in speaking of economics and science, we are addressing our attention, at least in emphasis, to the case of those “families” and their adopted assistants who actually run most of the world today.

The significance of the intellectual incapacities we have been outlining here is that these incapacities are presently the dominant blunders of the combination of “families” and intimate advisors of those families who run most of the world.

These “families”—taken as a collection—are analogous to the collection of deities on the Mount Olympus of ancient Greek mythology. Each member of the collection represents a certain momentary status on “Olympus” as a whole, and is associated with certain characteristic traits and impulses, more or less as the figures of mythical Olympus were so distinguished from one another.

In this arrangement, Olympus has its factional struggles, even sometimes brutally so. Yet, in general, Olympus unites to save Olympus from outside intruders, such as any modern-day “Prometheus.”

It is also useful to view these families as relatively immortal—pending the always-feared “Götterdämmerung.” As a collection, they work from a long-term worldview, as distinct from the shorter and narrower span of concern dominating most ordinary mortals. Each member of a present generation is a kind of incarnation of the continuity of his or her “family.” The “families” go on and on—or, so they are determined things shall be arranged. The function of the individual member of the “family” or the person elevated to those circles for ability to render services, has the proper function of devising ways to preserve and enhance the perpetuation of the Olympian order, as well as of his or her immediate “family” duties as such. All pending the always-feared “Götterdämmerung.”

It is permissible, and useful to define these Olympians as a heathen sort of “elite.” In that way we distinguish them from a Platonic elite, or the kindred elite represented by the “shepherds” of Neoplatonic Apostolic Christianity.

The Christian shepherd lives and acts as the instrument of that higher purpose implicit in the Logos, the hypothesis of the higher hypothesis. That shepherd resides, so to speak, in the “Paradise” canticle of Dante’s “Commedia.” He or she is an instrument of the continu-

ing perfection of the human species, at best a “philosopher king” in the sense of Plato’s prescription.

The Olympian, by contrast, acts for the “earthly Paradise” of the Olympian “families.” He does not seek power to be an instrument of that higher power; he seeks power, including the power mediated through scientific progress, merely as useful instruments for enhancing the continued rule by the Olympian “families.”

Now, those “families” find their steps toward power bringing them to the crumbling edge of an abyss: “Götterdämmerung”! The programs they have refined during the 1950s and 1960s, institutionalized over the course of the 1970s, now mock those “families” which set the neo-Malthusian scheme into motion. Now, they must either change their policies profoundly, also undoing most of the institutionalized policies they themselves set into motion during the 1970s, or the “success” of those policies means the imminent doom of the “families” themselves—along with a large part of the rest of the human species.

Either they accept my presidency of the United States for the next eight years, accepting my proposals for reordering the economic and related processes in this world, or those “families” very success in blocking my presidency will be but the immediate predecessor event for their success in bringing about their own “Götterdämmerung.”

So far, those “families,”—at least a significant representation of such circles, have reacted with mixed rage and fascinated astonishment to the course of developments preceding and now accompanying my candidacy for the presidency. As they discover me and my immediate associates to be so repeatedly correct, where the families’ projections have been wrong, and as they have been astonished by my own and my associates’ limited but significant degree of success in repeatedly escaping the efforts of the ruling “families” to contain and crush those efforts, they are fascinated to know the source of the competencies and potency so represented. The answer is set before them, repeatedly, in published explanations, but their minds, so far, refuse to accept what is written about as plainly and candidly as might be stated within the conventions of existing usage of the languages in which they have been written and published. The source of the difficulty is not the want of clear explication; the source of difficulty is the inability of the reader’s mind to accept the kinds of notions associated with the “hypothesis of the higher hypothesis”—and more profoundly, their psychological fear of accepting the notion that there exists anything higher, more potent than the “earthly Paradise” of the Olympians.

They desperately wish to believe that they run the world’s affairs. Therefore, they cannot accept the notion that something could exist efficiently “in the world” which embodies a higher-ranking authority and potency.

## Mexico's startling economic decisions

by Tim Rush



On March 18, Mexican President Jose Lopez Portillo rose to make an impromptu speech to oil-workers gathered to mark the annual national commemoration of the 1938 nationalization of Mexican oil.

When he sat down a short time later, he had revealed a series of three decisions which collectively point the direction for the economic policies of the remainder of his term, which closes Dec. 1, 1982.

They were 1) that Mexico will begin further expansion of its oil production capabilities, beginning with a 10 percent increase above previous ceilings set for the end of 1980; 2) that Mexico will not enter the General Agreement on Tariffs and Trade (GATT); and 3) that the government will launch a new, "globalizing" attack on Mexico's serious and worsening agricultural situation, to be called the Mexican Food System.

All three decisions had been hotly debated in Mexico for months; and the first two had been the subject of extensive speculation in the foreign press.

The thread unifying the three decisions is actually a reassertion, in new terms, of the fundamental tenet of the administration's economic policies from the beginning: use of oil to convert Mexico into a modern industrial power-house, with attendant upgrading of the cultural level, skills, and living standard of the labor force.

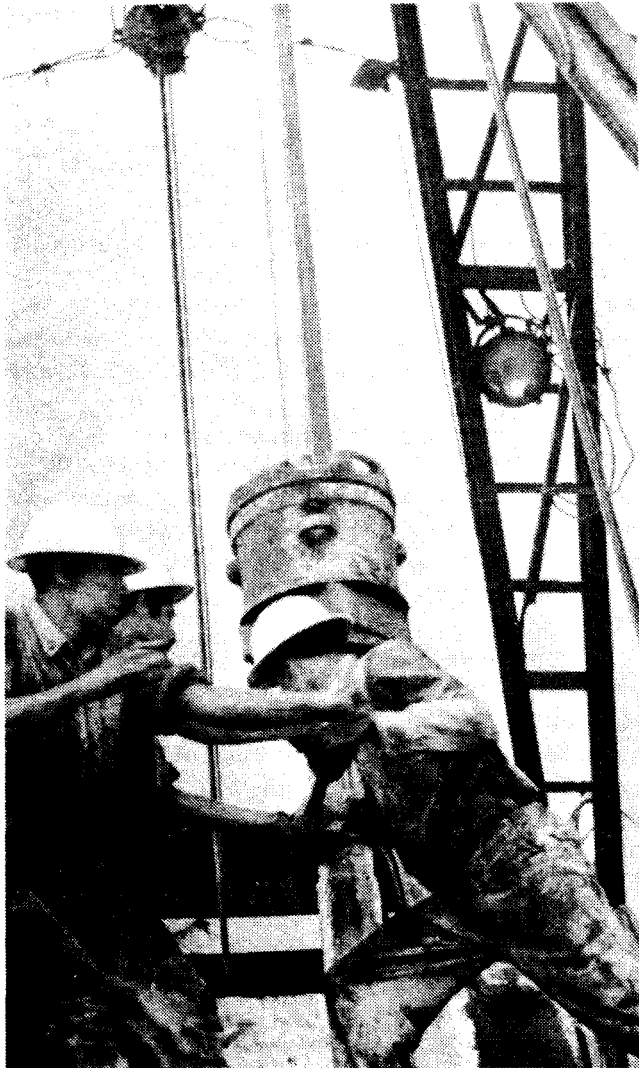
This was clearest in Lopez Portillo's insistence that

the "road to controlling inflation is through more production, not through cutting demand." Mexico was hit with 20 percent inflation the past year and may face 25 percent this year at current rates. Yet Lopez Portillo refused to knuckle under to the substantial voices, both on the environmentalist left and the Friedmanite right, who were promoting keeping the oil in the ground and joining GATT as "anti-inflation" measures. By keeping oil production a flexible instrument at the service of rapidly increasing domestic demand and oil-for-technology deals abroad, and by sticking to Hamiltonian principles of protection of new or underdeveloped industries, he kept the full policy commitments in place behind the ambitious industrialization drive.

For close watchers of Mexico, the signals were already in the wind with the February 13 announcement, little commented upon either inside or outside the country, that the government had given the green light to the \$2 billion second stage of the giant Las Truchas steel complex on the Pacific Coast, after three years of tenacious opposition from the IMF.

Besides this fundamental economic definition, the March 18 decisions are important politically in shaping the battle over who will be Mexico's next president. All three points were fought out at length within the Mexican cabinet—which traditionally is the selection pool for Mexico's next president—and the "lineup" on each is therefore of particular political relevance.





# I. OIL

The President justified his decision to raise the 1980 oil production ceiling from its previous 1980 "platform" of 2.25 million bpd to 2.5-2.7 million bpd—approximately a 10 percent increase—on the grounds that increasing Mexican domestic oil consumption demanded it. He announced no increase in the slated level of exports, 1.1 million bpd.

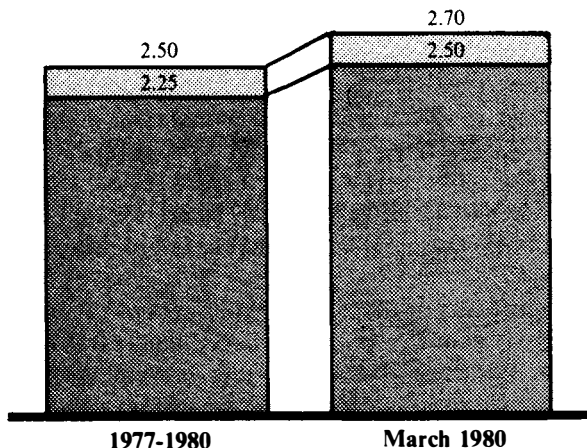
It was a politically astute way to break a major political and psychological barrier. For almost two years the current ceiling had been widely advertised by the government. The strategy was both to shed some of the heat from oil-desperate foreign clients, such as the U.S., and to insulate the domestic economy from an unmanageable influx of oil revenues which could cause, in a famous phrase of López Portillo's, "economic indigestion." After mid-January press leaks that a possible revision of the ceiling was under consideration, Mexico's anti-industrial left in particular geared up an effective propaganda campaign portraying any increase in oil as a sell-out to Uncle Sam. Figures widely quoted in the press suggested a possible rise to 3.5 or 4.0 million bpd as "the CIA's wishes."

By going with a much smaller increase and one ostensibly geared to domestic consumption, not increased exports, López Portillo has deflected a lot of this heat. Yet the policy is a definitive rejection of the "conservationist" approach, and may well lead, in a new regime of "mini-increases," toward late 1982 production levels close to those mooted in the press. The decision also represents a clear victory for Petroleos Mexicanos director Jorge Díaz Serrano, in the face of almost unanimous opposition to breaking the 2.25 barrier on the part of the rest of the cabinet.

But the decision is far from capitulation to U.S. pressure. It is true that America currently receives the lion's share of Mexico's exports. However the new margins of Mexican production are not going in the same proportion to the U.S. The key factor here is Mexico's policy—as emphatically reasserted by Industry Minister De Oteyza March 19—that the oil exports "allow bilateral package deals involving transfer of technology and products in exchange for crude oil." It has never been U.S. government policy to promote such package deals with Mexico. Instead Washington has played games with "oil-for-food," "oil-for-illegals" and "oil-for-debt payment" pressure tactics. The countries which have gone along with the oil-for-technology focus—Oteyza men-

## Oil production goals

(range in millions of barrels per day)



tioned Japan, Sweden and Spain among others—are getting the new contracts.

It is expected that López Portillo's mid-May visit to the core countries of the European Monetary System, France and West Germany, will mark a key consolidation of the Mexican approach. Recently, Jacques Cavet of the Bank of Paris called Mexico's industrialization the key to development of all Latin America.

Mexico is moving even more rapidly on the Asian front. Industries minister Oteyza will visit Japan, a leading "oil for technology" partner, on April 7. Less than a month later, Japanese premier Ohira will pay a state visit to Mexico.

Perhaps as a reaction to the reality that Mexico's oil increases remain firmly wedded to this oil-for-technology focus, U.S. government and British press sources antagonistic to the industrialization drive have begun to circulate the line that "Diaz Serrano really lost" the battle over oil policy. A Treasury official insisted to *EIR* late last week that this was the case. And this week's coverage in both the *Latin America Weekly Report* (published in London) and the London *Times* asserts that Carter policy and Mr. Diaz Serrano lost another round on this one. The thinking may be to create additional leverage for hard-line anti-Mexican policies in the U.S., especially in an administration to follow Carter's. For the time being, the principle of U.S. policy remains to prevent Mexico from using its oil for its development.

## II. GATT

The decision not to enter GATT follows well over a year of government-encouraged debate in the country. During this time Mexican negotiators headed by top trade official Abel Garrido worked out special arrangements with GATT officials which would have allowed Mexico a relatively "soft entry" into the trade club, with up to 12 years to make full adjustments.

Lopez Portillo's "no" thus took many by surprise. It was clear from the depth of debate within Mexico and the cabinet that the government's negotiations were not simply one of "going through the motions." What, then, swung the decision toward the negative in the final deliberations?

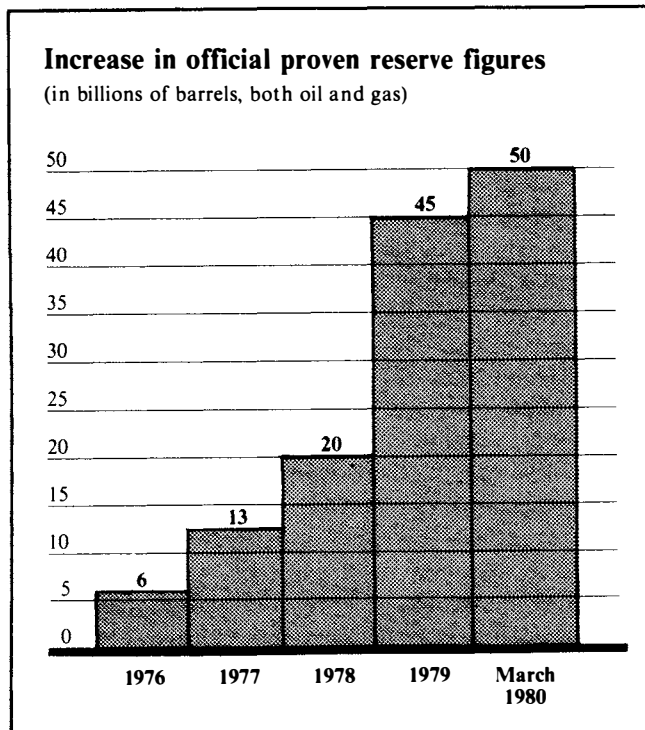
All indications point to a judgment that the key new industries, especially capital goods, which Mexico has built into its National Industrial Development Plan, would be choked off by entrance into GATT. It is these industries, tied in many cases to Mexico's "industrial port" strategy, which are projected as the backbone of intensified future exports of manufactured goods. The thinking here closely correspond to Alexander Hamilton's trade protection arguments 200 years ago.

Critics argued that staying out of GATT would protect inefficient consumer goods producers in Mexico hiding behind favorable tariff protection. No, said the President; measures will be taken outside GATT, to cut down this inefficiency.

Bolstering the "no" side was the undeniable success of Mexico's bilateral "oil for technology" negotiating focus. "Will we be able to use our oil as an effective negotiating weapon under GATT?" asked the opponents.

The final "pulse-taking" was close, however. Substantial layers of the government bureaucracy, together with some of the associations representing reporters, commerce, and large industry, favored entry. Ranged against the move were small and medium industry, led by the CANACINTRA industrial federation, and a variety of nationalist and left economic and political organizations.

The intensity of the faction fight over GATT was not new for Mexico. In the period immediately after World War II, the issue of Mexican membership in GATT mushroomed into a major political controversy when it became clear that the nation might be obliged to admit imports that could compete with the output of fledgling



domestic industries. During the controversy, the CAN-ACINTRA, one of the strongest "chambers of commerce" in any nation, came into being to lead the battle against GATT membership. It consists of the industrialist and entrepreneurial layers who remain to this day identified with opposition to GATT and any other international agreements that could harm or limit the development of domestic Mexican industry.

The vote in Mexico's eight-man "economic cabinet," according to Mexican political columnists, was split down the middle. Among those reputedly in favor: Commerce, Interior, and Planning; among those opposed, Industry, Finance, Foreign Affairs, and Labor.

### U.S. reaction

Washington anger at the Mexican decision (see below) is apparently intensified by the collapse of a larger North-South strategy. As a Treasury official told *EIR* this week, Brzezinski in particular viewed Mexican entrance into GATT as a "strategic issue," because "Mexico is so important for other Third World countries. Mexico is the swing country, we were looking to it to bring in Colombia and some other Third World countries in Latin America and Asia still not in GATT."

As is documented below, Washington plans to keep "a low profile" on its opposition to the Mexican decision, but spokesmen for the Carter administration are already broadly hinting that if the Mexicans don't change their mind, the U.S. could launch trade war against them.

But other opinion is not so ruffled, it appears. Though the EEC Commission is "concerned" over the Mexican actions, according to Treasury sources, French and Japanese officials in Mexico have told *EIR* that their countries are not particularly upset. And in the U.S. numerous large manufacturing firms with affiliates in Mexico are just as happy Mexico is staying out—it keeps their domestic Mexican market more secure.

Within Mexico, the traditional expressions of support for a President's decision—now that it's made—are coming in from all sectors, including many who favored entry. Parallel to this is the growing recognition that the high interest rate policies of the U.S. Carter administration are the real issue Mexico must face at this moment. GATT is a secondary matter. The Mexican stock market has tumbled even further than the New York stock market this month in reaction to Volcker. Industry Minister Oteyza stated last week that for every percentage point Volcker hikes U.S. interest rates, Mexican rates shoot up 1.5 points. The head of the Mexican Bankers Association, Rolando Vega, confirmed a day later that an "interest rate war" is on in Mexico, and that the domestic banks are studying raising interest rates on credit cards.

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## III. FOOD

The third of Lopez Portillo's decisions to launch what he termed the Mexican Food System, is at once the least defined and perhaps the most important of them all. It is a simple fact: no nation can develop with the burden of a large, backward farm sector.

Throughout his term, the President has focused national attention on the two "pillars" of his administration's economic policies: energy and agriculture. Yet at this midpoint in the term, Mexican agriculture is as much a failure as energy production is a success.

The announcement of the Food System, or SAM in its Spanish acronym, is a recognition that this imbalance must be righted.

Lopez Portillo spoke only in broad outline, however, about the new effort. He hinted at more direct involvement of the state in agriculture affairs. Heretofore, the infrastructure and industrial areas of the economy have followed the model of a "mixed" public and private sector economy much more than the agricultural sector.

He spoke of "globalizing" coordination between the different ministries dealing with agriculture—which includes Commerce, Finance and Agrarian Reform as well as the Agriculture and Water Resources Ministry. He called for national self-sufficiency in food production.

This last is clearly the most important of the goals, and the most difficult to achieve.

In the course of the past decade's miserable agricultural performance, Mexican imports of basic food grains rose steadily to the current 1980 projection of 7 million tons—fully 33 percent of Mexican consumption.

In Lopez Portillo's September 1979 State of the Nation address, he scoffed at those who worried about this import bill. The value of agricultural exports more than make up for the cost of imports, he noted.

But increasing concern that the United States could eventually use a food cut-off as a devastating "food weapon," combined with further deterioration of the agricultural situation, apparently caused the shift in strategy.

The big unanswered question is whether the SAM will effectively build national support for a high-technology, mechanized approach in correspondence with the industrialization effort in other areas of the economy; or whether the labor-intensive, low-efficiency models of the World Bank will predominate. The policy fight has already led to a shake-up in the Agriculture Ministry.

## Documentation



# President Lopez Portillo explains the reasons



*Lopez Portillo announced his major economic decisions at the national commemoration of the March 18, 1938 nationalization of Mexican oil, held this year at a rally of oilworkers in the city of Guadalajara. Here are the highlights.*

### On energy

I now ask you to convert [the previous production goals] into a consolidated support platform which permits us, between now and 1981, to increase our supply capacity to meet the country's growing needs and to be able to guarantee exports of 1.105 million barrels per day....

We have always said that we would have to reach 2.25 to 2.5 million bpd by 1982. We will achieve that level this year. I ask for your efforts to give the country the flexibility of an additional 10 percent so as to guarantee export supplies and enable our country to respond to any problem or danger which comes up.

What does this mean, fellow workers? This means we will have sufficient resources for our own economic self-determination. With what we call "a consolidated platform" of 2.5 to 2.7 million bpd, with this 10 percent extra effort I am asking of you, we can liberate domestic resources until now destined for this great national effort, and we will obtain enough foreign exchange to begin reaching some of the other priority goals which, unfortunately, we have not yet managed to do.

### On food

From this meeting I call upon every Mexican to establish a Mexican Food System on a solid footing. This is an all-embracing program....

The objective of the Mexican Food System is to reach self-sufficiency in each of the key subsystems of national nutrition: grains, edible oils, fruits, vegetables, meat, fish, milk, and eggs. We are going to organize the country to produce food during a dramatic period in which it is demonstrated that the defining strategic force of the superpowers lies precisely in the food they have learned to grow. It would be shameful for us, having

solved the energy problem, to fall into the trap of losing out by the cravings of our mouths. We will not tolerate that.

We (in the state sector) are going to share the risks in order to induce technological changes and support a higher order of peasant organization. We are going to give preferential incentives to the food processing industry. We are going to set up a distribution network in which we can begin with the harvest and storage and go all the way to the retail level.

### On inflation

We are conscious that a sustained effort at 8 percent growth necessarily results in inflationary pressures in a world in which inflation is generalized. It is not a question of inflating the economy, but of controlling it, starting from the understood possibility of controlling inflation; *not* by the road of cutting demand, but through increasing productivity.

### On GATT

A responsible group of Mexicans has suggested that the country join GATT in the process of trade liberalization. These Mexican officials have carried out their efforts in the most honorable way and have negotiated the best possible agreement. It has been submitted to national consideration and, through the sectors of the governments, we have heard the contradictory opinions of the interests which legitimately should express themselves on something as important as the destiny of Mexico in world trade....

After receiving diverse and contradictory opinions, I have decided that it is not the right time for Mexico to enter that trade system. ... Many questions have yet to be answered. These uncertainties could well compromise the objectives of our world plan and we prefer to advance in the conception of a more just new economic order even though we should have to go through bilateral negotiations outside of GATT, as we have done until now.



**Documentation**



# Pemex's Diaz Serrano: The status of oil production

*The following excerpts from Pemex Director Jorge Diaz Serrano's March 18 address summarize the geographical prospects for Mexican oil and gas expansion, and the benchmarks achieved in Pemex's extraordinary development effort so far.*

On November 30, 1976 our proven petroleum reserves were announced to be 6,338 billion barrels. I am pleased to inform you that our proven petroleum reserves are now up to 50,022 billion barrels, an increase of 690 percent.

This new figure puts Mexico in sixth place in the world. It would take 64 years to drain our reserves at current production rates...

The Gulf of Campeche is the most important new oil field in the world, (and) is producing more than 500,000 barrels per day of crude...

The biggest field in Mexico today is the Antonio J. Bermudez field, which is producing 600,000 bpd of crude.

Six gas fields have been found in the Sabinas Valley. Its wells average 10 million cubic feet per day, a high figure compared to gas wells in the rest of the country.

The integral development of the Chicontepec area has been planned to promote Mexican production of accessory, metalworking and electrical equipment, chemicals, and other goods which will come on stream to the degree permitted by national demand for them.

### Gas and oil production

Current gas production nationally is 3.5 billion cubic feet daily of which 7 percent is flared, mostly offshore. We have already begun building the pipeline to bring the gas ashore and expect to be processing it and pumping it into the Mexican natural gas system within a year. By this means we will be utilizing fully 97 percent of this important hydrocarbon.

Our oil refining capacity has increased by 31 percent and our capacity of separating liquids from natural gas by 78 percent in the last three years. Thus Mexico is among the dozen biggest oil refiners in the world.

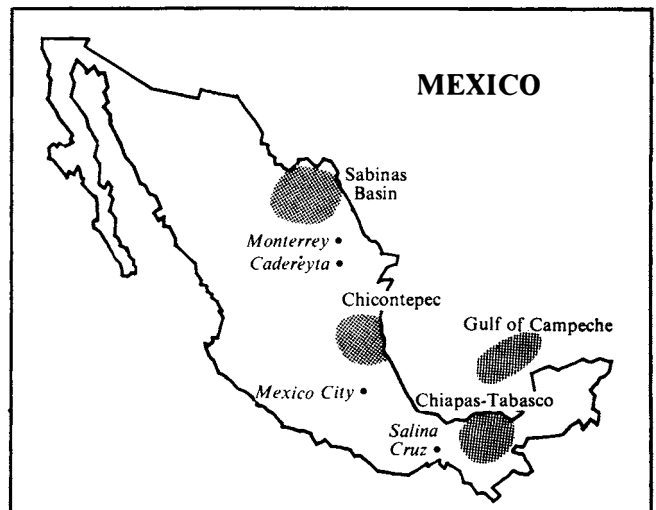
### Exports and export policy

Crude oil predominates in the structure of our petroleum exports. Crude exports increased in volume by 560 percent over the last three years, from 34.5 million barrels in 1976 to 194.9 million barrels last year. Export of marine crude, called by the international trade name of "Maya Crude," began in November, 1979, at a price slightly below that of light crude...

We reiterate that our policies of exporting surplus crude have been oriented towards diversifying our markets. Our crude remains totally outside of speculation. We respect the volumes and prices contracted and deal directly with refining companies of good repute. Our prices have always been above those of OPEC.

Mexico will not sell its natural gas to U.S. clients for a penny less than the highest price which U.S. companies pay for natural gas in comparable conditions from other vendors. Mechanisms have been set up to guarantee this situation for Pemex...

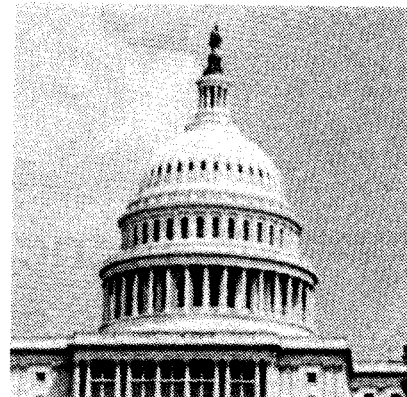
We fully share the thesis that Mexico should not be an oil-producing country, but rather a country whose growing oil resources contribute to support economic development with liberty and social justice...



## Documentation



# Washington ponders trade war



*The U.S. Departments of State, Treasury, Commerce and Labor met in a hastily scheduled session March 21 to begin preparation of an official U.S. response to the March 18 decision by Mexico not to join the General Agreement on Tariffs and Trade (GATT). Although officials stressed to the EIR that the administration will "take a low-level profile for the time being," the Special Trade Representative's office is already drafting a legal memo outlining to Mexico the various trade weapons that the U.S. will now be "legally obliged" to invoke.*

*In talks with the EIR, this is what Washington is saying:*

### **Special trade representative's office**

Now, I can say that we clearly had been in the position of expecting Mexican entrance into GATT. We are not overreacting, and we're looking at the thing carefully. But it certainly sounds like bad news, disappointing news. We had hoped they'd be coming in. One of the things we are checking is to see if it is true, that Mexico has said no not only to GATT but also to the nontariff codes multilaterally arranged during the Tokyo round. The significance of this is that we have some bilateral agreements with Mexico which are hinged to Mexican acceptance of these multilateral codes. It's a tentative agreement, whose terms have never been released, and in it we gave Mexico certain tariff concessions. All that is now in question."

### **Commerce Department, office of trade policy**

"We were totally uninformed of the negative decision prior to the announcement. We knew it was a serious fight, that it was thrown into the cabinet for a key vote that would guide the president, but we haven't had good intelligence prior to when the announcement came out. We have had some comment

from other trading partners, the EEC Commission, with indications of their surprise and concern as well. There is now a review going on across all the cabinet departments coordinated by the Special Trade Representative, with State, Kreuger, etc. There was a meeting this morning (March 21) with State, Treasury, Commerce and labor and some others. But we want to communicate directly to Mexico, present to them the legal situation as we see it, what this means for us, what the law will now dictate for us. Agnew [Reuben Agnew, head of the STR] is in charge of preparing this, though it has interagency authorization and input. This will be gotten to Mexico first of the week.

### **Treasury Department**

"It's really a step back, certainly in bilateral relations. We had all thought Mexico was serious about joining, and we aren't very happy. But we're taking a low-level profile for the time being, we'll take it slowly and then we'll meet with them in Rio next month. There's an Interamerican Development Bank meeting, and we'll use the occasion for separate bilateral talks, the NSC, State and the STR will be heading up the work on the response."

### **Senate Foreign Relations Committee**

"The U.S. of course was pushing Mexico to join. But in Mexico, commerce and industry was opposed. So I'd have been more surprised if Mexico had joined. But the whole way they negotiated and then didn't go in is unprecedented kind of behaviour. The reaction here is real disappointment. What this shows is that Mexico has more breaks than anyone, yet every time these trade issues come up, it acts as if it were singled out for abuse. The preferences we now give Mexico on a bilateral basis, like around the border, could be directed to the Caribbean and elsewhere. I'm not saying we should do this, but this is what Mexico doesn't seem to appreciate."

## The President in Monterrey

*When the leading defender of the "state sector" of Mexico's economy visits the citadel of "free enterprise," it is always a matter of intense interest.*

The trips of Mexico's presidents to the city of Monterrey, citadel of the ideologues of private enterprise in Mexico, is always an event of intense interest. Though Lopez Portillo has certainly maintained better relations with Monterrey than his predecessor, Luis Echeverría, there remains profound antagonism between the defenders of the "state sector" and the "private sector," in Mexico's mixed economy.

The added attraction in President Lopez Portillo's March 14-15 visit to the northern industrial center was the presence of Texas Governor William Clements to discuss U.S.-Mexico border affairs.

In an opening meeting with Clements and Clements' great buddy, the Governor of Nuevo León (of which Monterrey is the capital), Lopez Portillo gave his stamp of approval to a conclave of the four U.S. border governors and their four Mexican counterparts. This is due to take place in the end of June. One session will be held in Mexican territory, at Ciudad Juarez, and other across the border in El Paso, Texas. This has been a pet project of Clements' since his inauguration.

But Lopez Portillo has his differences with the vision of border development pushed by Clements and Gov. Alfonso Martinez Dominguez. He registered this with the

carefully calculated demurrer that he couldn't attend the El Paso side of the activities because he "would need the permission of Congress." In Mexico such permission is a mere formality, and no real impediment to travel outside the country.

The two governors are part of a border faction—which actually extends to the board rooms of New York investment house Lazard Freres, and includes Baja California Governor Roberto de la Madrid as its leading proponent—lobbying for a 50-mile "free zone" on each side of the border. This is Hong Kong East emporium thinking, involving cheap labor and energy from the Mexican side, and easy access to U.S. markets.

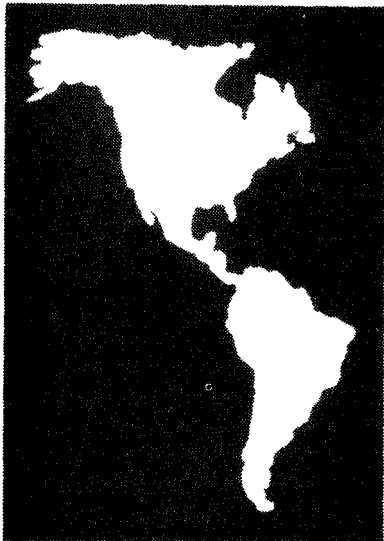
Lopez Portillo and nationalist planners around him think this kind of development could jeopardize Mexican sovereignty and undermine effective industrial planning on a nationwide basis. There is a famous story of a helicopter inspection tour of the border that Lopez Portillo took a year ago with Tamaulipas Governor Enrique Cárdenas Gonzalez. "Don't make such proposals even in jest" he reportedly told a stunned governor, when Cárdenas mentioned a free zone plan. Cárdenas hastily called a press conference upon landing to disavow any interest in such a border approach.

In addition to the Clements meeting, the talk of Lopez Portillo's visit centered on a private dinner at the home of the president of Monterrey's big steel company, HYLSA. Little is still known of what transpired; but insiders report one item on the agenda was Monterrey's request to expand its Planta Electrica Grupo Industrial (PEGI), the only remaining privately held power facility in the country.

The issue touches directly on one of the fundamental divisions of the private sector from the state sector in Mexico: the state has total responsibility in the energy and power fields.

Though Lopez Portillo has kept his relations with Monterrey on an even keel, Monterrey's concerted campaign to portray itself as the only serious industrializing agent in the country has certainly galled the President. As he is almost certainly aware, it was Gov. Martinez Dominguez who personally arranged with *Forbes* Magazine in the U.S. last fall for 9 pages of free—though unidentified—advertising which termed Monterrey the "cutting edge" of Mexico's industrial surge and omitted the state role entirely.

Also perhaps going through Lopez Portillo's mind as he watched the elaborate congressional reception arranged by Martinez Dominguez for him was the widespread talk that the governor probably best known for his complicity in the student massacres at the beginning of the 1970's, has his eye on succeeding Lopez Portillo to the presidency in 1982. But experienced political observers see virtually no chance of this—short of a U.S. invasion to back him up.



# Terrorism targets the Americas

by Cynthia Rush

With this week's assassination of two prominent Jesuit clerics in Latin America—the Archbishop of San Salvador Oscar Arnulfo Romero, and a leading Bolivian priest—strategists at the Jesuit Order's Georgetown University in Washington and the Council on Foreign Relations in New York may well see the fulfillment of their plan to replicate Iranian terrorism and “revolution” in the Western Hemisphere.

*EIR's* assessment is that the mass protest over these two killings will trigger a cycle of left-right violence that could engulf Central and South America, and extend northward into Mexico and the United States. Both victims were outspoken proponents of the “Catholic” brand of “Islamic fundamentalism,” or “Theology of Liberation” of the Jesuits.

That the United States is an included target was signalled by last week's threat from the Puerto Rican FALN and the allied Dominican “M-14” groups to blow up U.S. nuclear plants in solidarity with the “revolutionary” struggle in Latin America.

## Whose “Arc of Crisis?”

For months, CFR policymakers inside and outside the Carter administration have carefully nurtured a scenario for bloody battle between Jesuit-controlled “left” and equally Jesuit-controlled “right” gangs throughout South America. What is now rapidly unfolding in the wake of this week's assassinations has made the region an immediate focal point of heightened world war danger, and poses a grave threat to the republic of Mexico.

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### **EIR Special Report**

*Iran Comes to Latin America  
The Bogota Embassy Takeover*

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According to press sources in Mexico City, officials of the U.S. State and Defense departments are now viewing the Central American and surrounding region as an “arc of crisis,” and have accused both Cuba and the Soviet Union of conspiring to grab Mexico's vast oil wealth. Secretary of State Vance also charged that Cuba was directly involved in fomenting El Salvador's destabilization, by supplying arms to leftist insurgents.

By projecting its own well-known designs on Mexican oil onto the Cubans and the Soviets, the Carter policymakers are situating themselves to carry out two long-held strategic goals: 1) intervene militarily into Central America and the Caribbean under the guise of combatting “Cuban adventurism”; and 2) remove Mexico as a force for industrial development and stability in the region, targeting it for Iranian-style social upheaval.

The Mexican government, through Foreign Minister Jorge Castañeda, responded immediately and angrily commenting that “it would be stupid” to say that either Cuba or the U.S.S.R. were conspiring against Mexican oil. Castañeda also debunked Secretary Vance's charges of direct Cuban involvement in El Salvador. *EIR* has learned this week from sources close to the Council on Foreign Relations that a raging debate is now taking place in Washington policymaking circles over whether or not the U.S. should intervene militarily into El Salvador and the Caribbean. Recognizing the grave threats to its sovereignty implied by these developments, the Mexican government has redeployed troops into its southern border area, known to be a target site for provoked Indian and peasant uprisings, or invasion from Guatemala. A U.S. invasion of Mexican oilfields is also not excluded.

## **El Salvador**

Predictably, an immediate wave of violence has followed the assassination of El Salvador's archbishop Os-



car Arnulfo Romero, who frequently condoned "revolutionary violence" as a legitimate response to social injustices.

The country's largest leftist umbrella group, the "Revolutionary Coordinator," is using the archbishop's March 24 murder—which took place while he was officiating at a mass—as the rallying cry for "revolution." Radical clergy are demanding that the leftists rise up and respond to the Romero killings, believed to have been carried out by professional hitmen. One "liberationist" activist in the U.S. with close ties to Latin America, is already predicting that El Salvador "will have its revolution before November." In Bolivia, one of the areas which "ex" Jesuit Malachi Martin predicted was "about to go," (see interview) over 50,000 people marched in the streets this week to mourn a leftist Spanish Jesuit who was tortured and slain by right-wing forces.

As Latin America enters the traditional pre-Easter Holy Week, characterized by mass religious processions and cult-like rites of penitence, the violence and bloodshed are expected to increase dramatically. Many observers fear that the religious semi-hysteria generated by Holy Week, together with the recent killings, will provide the climate in which "leftist" terrorists can organize largely peasant masses into the same kind of rampaging anti-technology mobs that characterized the "Iranian Revolution."

In Mexico itself, known terrorist controllers such as Cuernavaca's "Red Bishop" Mendez Arceo responded to Romero's murder with the statement that "one cannot forget that there are also many Christians who fight and die for the same cause: Liberation!" Just a week earlier, Mendez had distinguished himself for supporting the terrorist M-19 grouping in Colombia, which is still holding diplomatic hostages in the embassy of the Dominican Republic in Bogotá. Mendez seeks to foment peasant insurgency against President Lopez Portillo's industrialization program.

Leading European terrorist controller Jacques Soustelle (see box) has also been in Mexico over the past few weeks to exhort the peasantry—as well as the Mexican-American population in the U.S.—to reject the modern world in favor of returning to their "Aztec roots." "We should recognize that the solidarity of the Aztecs tends to disappear under the necessities of the present... cities and modern life destroy human ties. Modern inventions separate us whether we like or not," Soustelle raved.

As indicated by the communique issued March 21 in the United States by the Puerto Rican Armed Forces of National Liberation (FALN), and the Dominican "M-14", expanding terrorism is a key adjunct of the "cultural liberation" orchestrated by the likes of Soustelle and their liberal supporters in the United States. The FALN is threatening to blow up U.S. nuclear plants and recreational sites "where only white people go..."

## Who is Jacques Soustelle?

A French anthropologist and expert on Mexico's Aztec culture, Jacques Soustelle, since the 1940s has been identified as a British-Israeli intelligence agent and a key terrorist controller with extensive ties into Latin America. A pioneer in "cultural relativism," Soustelle began his agent career inside the "Free French" movement and then government of French general Charles de Gaulle.

Following de Gaulle's return to power in 1958, Soustelle openly broke with the French leader and engaged in anti-de Gaulle political activity. Then began a four-year period of intense terrorist activity by the Secret Army Organization (OAS) and other parallel groups under Soustelle's leadership, as well as active collaboration with the Permindex-organized crime machine, known for its numerous assassination attempts against de Gaulle.

Soustelle has extensive connections in Latin America, and especially Mexico where he is an intimate of Mexico's "Khomeniacs" like the influential poet Octavio Paz and his friend and colleague, writer Carlos Fuentes, both of whom openly promote the "Iranization of Mexico."

## Who is the "Red Bishop?"

Mexico's Catholic Bishop of Cuernavaca, Sergio Mendez Arceo, is one of the central Latin American figures in the Jesuit-run "Christian-Marxist Dialogue" and "Theology of Liberation Movement." Today known as the "Red Bishop," he ironically first gained international notoriety in 1960 for his virulent campaign against the Mexican Government's free textbook program, which he denounced as "communist."

Starting with his patronage of the 1962 founding of Ivan Illich's Centro Intercultural de Documentacion (CIDOC) in Cuernavaca, he rapidly assumed his left and proterrorist coloration. Though not a Jesuit himself, Mendez Arceo is closely affiliated with all the major Jesuit projects on the continent. The CIDOC operation is exemplary. CIDOC singlehandedly indoctrinated a full generation of young European priests headed for assignment in Latin America, in "liberationist" support for terrorism. The CIDOC became so notorious that in mid-1969 the Vatican temporarily shut it down.

Mendez Arceo joined with leading Jesuits in a pre-1973 meeting in Chile which officially launched the Theology of Liberation as a defined continent-wide conspiracy.



## Colombian military frees M-19 controllers

by Valerie Rush

This week, the military command of the Colombian Armed Forces released from jail two key individuals charged with complicity in the activity of the terrorist M-19 guerrilla group that is currently holding 22 diplomats hostage in the Dominican embassy in Bogota. Tony Lopez Oyuela, a former judge of the Colombian Superior Military Tribunal, and Maria Cristina de Fals, wife of the renowned "leftist" sociologist Orlando Fals Borda, walked out of prison March 24, ending a 14-month detention. They had been charged with involvement in the M-19's spectacular January 1979 theft of four thousand guns from a military stockade in Bogota.

Most of the international press reported this as a sign of "softening" in the government's position toward the M-19 occupiers of the Dominican Embassy. There is "progress in the negotiations," the argument runs.

But the facts of the case confirm the *EIR*'s contrary contention that the entire embassy takeover has been a carefully deployed charade from the start. Lopez Oyuela and Fals, far from being mere M-19 militants being "exchanged", are in fact two of the highest level *controllers* of the M-19 with demonstrable links into the Colombian military itself and into international Jesuit networks. In freeing them, the Colombian military was releasing two of their own, accomplishing the double purpose of lending further dangerous credence to the legitimacy and power of the M-19.

The evidence against Lopez Oyuela and Fals is overwhelming, and was elaborated at length in the *EIR Special Report*, "Iran Comes to Latin America." Below, we quote the relevant sections of that Report.

Two weeks ago the Venezuelan magazine *Resumen* published a report which revealed that Colonel Rojas Orjuela, second-in-command of the Bogota police force, learned of and forwarded to his superiors information on a planned assault on the Dominican embassy nearly two weeks prior to the M-19 takeover. The information was suppressed and, as is well known, no security was provid-

## The 'foreigners' organize the 'peasant uprisings'

*Rafael Fernández Tomas, a leading spokesman for the nationalist PST party of Mexico, warned in the March 17th issue of the Mexican daily El Día, that reactionary "religious" forces in Mexico were being aided by Americans to destabilize Mexico. He revealed that peasant anti-government revolts are being organized by these groups and are targeting the crucial Huasteca oil fields.*

*The following are quotes from Fernández Tomas's article, headlined "The Risk of an Independent International Policy and Brzezinski's Views—Beware of the Provocations in the Huasteca."*

In the Huasteca, a dozen families have kept the best lands and introduced terror through thugs and the White Guards (name given to paramilitary groups—ed.)...In mid-July of 1979 a former army

sargeant appeared in the Huasteca leading a group of men armed with modern equipment, calling itself the "October 2nd" organization. He warned the townspeople about guerrillas in the zone. Nevertheless, during the ensuing ten months his actions have been directed exclusively against the peasant leaders who do not accept armed struggle. Coincidentally, none of these actions have hurt the large land owners...only the peasant leaders.

In tandem with the emergence of this group, religious groups have also appeared. They claim to be Germans, but it has been confirmed that they are Americans.

...Peasants from several towns in the area...agree that since mid-1979, a helicopter has been landing consistently in the mountains and it is public knowledge in this area that this helicopter as well as trucks are delivering arms.

At the end of last year, "Simon the German," a very tall and thin foreigner appeared in Huejutla, in Tlachinol and Chicontepec...This man repeatedly sought out the peasants of the region to tell them that to free themselves of their misery and ignorance "they should rise up in arms against the government."

ed the embassy that day. *Executive Intelligence Review* has independently confirmed that military intelligence in fact possessed the information and yet refused to take the appropriate security precautions.

### International media complicit

The two M-19 operatives have been set free at precisely the moment internal media have been building a climate of sympathy and acceptance towards synthetic terrorist creations like the M-19. Exemplary is the writing of *New York Times* columnist Tad Szulc who admits to having personally met with the M-19 last year and who describes them as "one of the strongest, most sophisticated, and most imaginative revolutionary movements in Latin America." He explains that its members are young idealist intellectuals from oligarchic families who reject their origins and who seek to create a "new politics" in their country. Writes Szulc, "the M-19 does not aspire to seize power nor to overthrow the current democratically-elected government in Colombia. Instead ... their objective is to demonstrate that the economic-social structure of Colombia and its political system is no longer viable...."

An interview with "Comandante Uno," the head of the M-19's embassy occupation squad—by the widely-read Colombian magazine *Cromos* reports that the M-19 does not consider itself either leftist or radical. "We are moderates," says the unabashed Comandante Uno.

The *New York Times* has also led a chorus of international media assertions that the M-19 is seeking to hold honest negotiations with the Colombian government and that it is in fact the intransigence of the Turbay administration which has sabotaged a successful resolution to the crisis. Articles quoting the hostages' "resentment" toward Turbay's hard-line have further contributed to an environment in which the Colombian president grows more and more vulnerable to the "advice" of the terrorist controllers within his own administration.

Despite its decision to release the M-19 suspects from jail, the military has not abandoned its option of an "Entebbe"-style raid on the embassy—even if that means sacrificing its terrorist pawns in a bloody showdown. Last week, the troops stationed around the embassy twice engaged in "simulated raid" exercises in full view of the M-19 terrorists, their terrified hostages, and the rapt international press corps staked out around the embassy. The exercises, recognized universally as deliberate provocation on the part of the military command, were conducted despite warnings that should such an assault be carried out, it would trigger terrorist retaliations not only in Latin America, but across the United States and Europe as well. For an Iran-style destabilization of the region to succeed, both options—the build-up of the M-19 as a credible social-protest movement and a bloody confrontation scenario—may well be employed.

## The dossier on the freed terrorists

*The following is excerpted from a dossier on M-19 operatives and their accomplices published in the EIR Special Report "Iran Comes to Latin America: The Bogota Embassy Takeover," dated March 16, 1980.*

**Tony Lopez Oyuela.** A former magistrate of the Superior Military Tribunal and chief of the Judicial Police of the political police (DAS). Lopez Oyuela was named to investigate the (1976) M-19 assassination of (Colombian labor leader) Jose Raquel Mercado.... In 1979, shortly after the M-19 arms robbery, Lopez Oyuela—one of the highest judicial officers in the entire military—was arrested for criminal collusion with the M-19.

It is known that sometime in the early 1970s, Lopez Oyuela underwent a political "conversion" from an "alvarista" conservative to a "progressive."

The evidence against Lopez Oyuela that has been made public includes the following: Lopez Oyuela was legal counsel to Produmedicos, the business front from which the M-19 dug the tunnel to the military camp to steal the arms. He is a close personal friend of the Arteagas [family] who ran Produmedicos and directed the left. Lopez Oyuela and Rafael Arteaga, now among the M-19's known leadership, previously rented professional offices together, and shared many of the same friends.

During the Mercado trial and investigation, Lopez Oyuela—who is regarded in Colombian labor circles as a CIA agent—was responsible for dismissing Teresa Valencia (Secretary of Women's Affairs for the CTC) from the trial as a key witness. In 1979, the authorities questioned Valencia on possible connections to the M-19, given her friendship with Lopez Oyuela and the Arteagas. At the time, statements made by Valencia indicated that, at the very least she knew who the M-19 kidnapers were.

**Maria Cristina de Fals.** Wife of the well-known leftist sociologist, Orlando Fals Borda, who was the close personal friend of guerrilla leader Camilo Torres. Fals Borda was also a cofounder of the leftist magazine *Alternativa* which has been identified as a conduit of M-19 propaganda. Maria Cristina de Fals was arrested in 1979 when it was discovered that she had purchased the house which was used by the M-19 to stash stolen military weapons.



*Malachi Martin:*

# 'The terrorists were all trained by the Jesuits'

*The following interview with Malachi Martin, the Vatican expert for William Buckley's National Review magazine, was made available to the EIR by an investigative reporter who recently interviewed Mr. Martin in New York City.*

*Martin was trained in theology at the Jesuit University of Louvain in Belgium, receiving a doctorate in "Semitic Languages, Archaeology, and Oriental History." After further studies at Oxford and Hebrew University, Malachi Martin, S.J. became a Jesuit professor at the Pontifical Biblical Institute in Rome.*

*Martin "quit" the Jesuit order in the mid 1970s, and authored the well known book, The Final Conclave. As the book's arguments reveal, officially or otherwise, Malachi Martin's mind remains loyal to Jesuit "liberation theology" doctrine.*

*The Final Conclave is a "scenario" forecasting the decentralization and disintegration of the Vatican in terms of temporal power. Martin forecasts a "revolution" within the church to make it the vehicle of a revolution in the world. Shed of its "political financial and diplomatic baggage," the church becomes a guerrilla church, an agent of revolution to overthrow the Kingdom on Earth, destroying the institution of nation-states that, in Jesuit theology, deny the Kingdom of Heaven by their emphasis on material progress. For Malachi Martin, a dedication to Jesus, and to terrorism, are quite the same thing.*

**Q:** I'm doing a background report on the Colombian situation that will go through the question of the relationship between the violation of human rights, the sociological environment, and how that leads to this kind of terrorist activity. What I'm interested in is the degree to which this kind of thing is going to occur elsewhere.

**M:** The impression I have, and that a lot of my collaborators have, is as follows. Things have got to such a pass, that there is no end in sight for the moment to these outbreaks—whatever form they take. They may even

take the form of a mass suicide, because the examples have been set and because there are political and ideological causes waiting. More often than not in the near future they will take the form of the Bogota incident.

The analysis that we have made of it goes deeper than merely, say, human rights like a living wage, or housing, or piped water, or justice in the courts, and agrarian reform, etc. A far more fundamental cause of this sort of disruption, especially in the Middle East, is the following. (I take banal examples): If a woman has her period, Islam as a religion provides her with an entire ceremonial, both in actions and words, to deal with that—before, during, and after. If she was going to cook rice, and there is a lot of rice there, there was an entire ceremonial developed over centuries. It's still the same as was used back in the 15th century.

Now we come along and give them tampax; and we give them Uncle Ben's rice or some other equally efficient thing. And we wipe out what ceremonial and ritual they had. If you apply that to the entire area of human living, what we are finding is that, of course behind the Ayatollah there is much more than the Ayatollah. And behind the students on Teleghani street in Teheran, there is much more than merely hot-eyed a-la-sixties students. But it would seem that because Islam, their way of life, was the only thing they knew, and it was being entirely disrupted by hasty, or over-hasty, or anyway quick modernization, the Ayatollah was almost ... well, if he hadn't been there he would have had to be invented.

Just as for instance, the new Saudi plan, which involves \$200 billion which will be spent in two years. One would say, a priori and at this distance, that they are spending their way into chaos.

## **Terrorist 'backwash'**

**Q:** So by extension you would argue that any similar process in Latin America would be heading for the same thing?

**M:** Yes, because they regard this as their right. Now, modernization that we effect, or that American companies effect, or that the Americans bring with them, which remains at a distance but changes the fundamentals of their lives at the same time—because they are affected by our music, and by our fast foods, and by our way of living—that seems to affect them more than anything else. It is true, too, that basic human rights are lacking. Nobody seems to be able to analyze this, because they remain on the plane of material things. They cannot reach beyond into a dimension which isn't necessarily religious, but at least is moral and ethical and of the spirit—without any connotation of Judaism or Christianity or Islam, for that matter, as religions. There is a dimension of human beings which hasn't been taken care of. And we have apparently reached the saturation point, and at that saturation point there are sufficient disruptive forces and sufficiently organized, to warrant our saying that in the near future there is no end in sight to the use of terrorism. There probably will be a backwash of the use of terrorism of the Bogota or Teheran style in this country.

**Q:** In the United States?

**M:** Yes. The big fissure in the Catholic consensus today is not over premarital sex, or abortion. They are squabbles. The big fissure is the socio-political question. And that's what the present Pope is facing ... But the weight of the church, the preponderance of feeling in the Church at the present moment is for terrorism and revolution.

**Q:** You say that is the case not only for Central America, but for Colombia and the rest of the world?

**M:** Yes. And in Africa, places like Rhodesia. In Colombia it is the same thing.

**Q:** Well I've noticed that the Theology of Liberation is very much talked about in certain orders—the Jesuits seem to be very active.

**M:** Jesuits, Dominicans, Franciscans. But they go much further. I mean, they actually trained the Marxist guerrilla in their military tactics. And we have photographs of nuns in Guatemala shouldering machine-guns in the jungles, in the scrub. They have gone that far.

**Q:** Would the same apply to the Colombian situation, with the M-19?

**M:** Yes, the very same.

**Q:** Would that be like the people around Camilo Torres, or what sort of people are you talking about?

**M:** Yes.

**Q:** I didn't know there were still many followers of Camilo Torres.

**M:** Oh, God, there's a tremendous amount. In fact, it got so bad towards the middle of the 70's that bishops were shipping them back to Dublin. You see, a lot of them were recruited straight from the seminaries. They had a man who went around to all the Irish seminaries in the 50's, 60's and 70's called the "Circulato"—literally, it means a fellow who goes in circles—looking for people who were willing to go to some mission in Latin America. Then they went to Cuernavaca or some place like that, to Ivan Illich when he was flourishing there; they trained them in Spanish, and the customs... And then they went off to Latin America. They became so revolutionary there they had to be shipped back to Dublin, Ireland, and Cork. And then they started the Theology of Liberation over in Ireland. The whole thing then blew up—like lighting a cigar—blowing up in the face of the Archbishop.

So in Latin America you could safely say on figures... I was talking with this man in Mexico City last year. We agreed that all the statistics would show that certainly well over two-thirds of priests and nuns want a Marxist state. They have decided that they want it, but they have decided that it can only come by armed revolution. Like the Bishop of Cuernavaca, who says that he is a Marxist and he is hoping for the day when there will be a revolution. Mendez Arceo is his name, Sergio Mendez Arceo.

**Q:** I know of this Mendez Arceo case, and I know that in Mexico much of the church has this approach. And I know that in the case of Panama you have people like Padre Xabier Gorostiaga.

**M:** That's right. Well you know, a man like McGrath (Archbishop of Panama) is not adverse to the advent of an extremely socialist government.

**Q:** Yes, and then you have Archbishop Romero in El Salvador, who is playing a very prominent role.

**M:** I know. They are playing a very prominent role.

### **M-19 and the clergy**

**Q:** The question that remains on my mind is what about the Colombian situation. What are the church layers that would be tied in there to the M-19?

**M:** The higher clergy in Colombia are dead set against any collaboration with Marxism or communism. If you take the ordinary run of priests and nuns working with the people, they would say—most of them behind closed doors and a lot of them in public—this is the only way we can make them listen.

**Q:** But in the case of El Salvador you have a public figure like Romero. In the case of Mexico you have a Mendez Arceo. In Colombia, though, who would be connected to this?

**M:** Specifically about Colombia, you'd like to have the name there? Yes... I can suggest a man who will put you in contact with them, but I'd rather you met him first. What is his name? He's a Jesuit, a Belgian... Vekemans, Roger Vekemans. There is nothing Vekemans does not know, about what's going on. Now he took refuge in Bogota, because he would have lost his kneecaps or worse if he had stayed on in Chile. He's a very knowledgeable individual. It's hard to get to him, but I'm sure you'll find your way. He can actually give you names there. ...

**Q:** The Colombia takeover seems to open up a whole new phase of things.

**M:** It does. It's meant to be a signal, for other people, to catalyze them. Like the situation in Northern Africa, Iran and Afghanistan. They are afraid to do too much suddenly. I don't think they want to test the American mood too much, for the moment.

**Q:** You mentioned in the same breath, and I understand why, the situation in Iran, the situation in Colombia. Is there any coordination on the level of the people who are thinking that way?

**M:** Yes. Yes, there is.

**Q:** In other words, would the Iranian revolutionaries talk to the M-19, or talk to the Jesuits?

**M:** Yes, yes. Well, put it like this. They all talk to one another... There is something that is above them all. Think on it, and you will come across it. They are all part of a loose coagulation which is tight enough to keep them talking, and keep them supplied. Essentially to send arms in their direction, and give them money to escape with.

**Q:** Are you talking to Moscow?

**M:** Not directly. Certainly it is Moscow-related.

**Q:** Do you have any other hints?

**M:** Well, I hate the phone and, anyway, it would be better for you to think it around and find it out yourself. It's quite detectable. But certainly the thing is coordinated very much. It's damnably coordinated... They haven't yet decided whether they should test out nerves. Thirty or 60 days will make the difference. In the meantime pray that the Algabal well in Saudi Arabia isn't taken hostage, or something like that.

### **Other targets**

**Q:** What countries do you think will be targets of this, since this is just the opening salvo?

**M:** Turkey, Bahrain, Saudi Arabia. If Tito dies, the only thing the Russians can do without really making us angry, making us do something drastic, would be to get

the Serbs and Croats to split. We'd have to put up with that. Jordan is always a precarious state.

**Q:** In Latin America, I've heard of Ecuador and Venezuela.

**M:** In Latin America, yes, those two are ready to explode.

**Q:** What about Mexico?

**M:** Well, the fact about Mexico is that it is heartening in one sense and disheartening in another. The amount of penetration on the level of government is very disheartening, on the one hand. On the other hand, the way everything is locked up by an oligarchy is heartening, in the sense that they have control of things for the moment. But that of course has a negative, a real ricochet, you know.

**Q:** It'll explode all the more forcefully at a certain point?

**M:** That's right. That's right.

**Q:** But you don't see that immediately around the corner?

**M:** I don't see that coming around the corner immediately. But what I do see is Central America exploding. And I see about four or six countries in South America exploding. Besides Ecuador, and Venezuela; Bolivia is almost ready, almost ready. Venezuela is in a very dangerous position, even if you don't believe it, but it is in a very dangerous position. The man who will be able to give you facts and figures and dates and movements on this and the others, would be Vekemans. Part of his job is to monitor all that. To put it all together.

But I guess the timetable is held up by the inevitable delays in Afghanistan and Iran. The international brouhaha about it has been slightly disconcerting for them. And Iran has been recalcitrant because they just can't quite control Islam, though they seem to be doing damn well for the moment anyway, with our connivance. But I think the timetable has been held up; far more than Nicaragua was supposed to have gone by now.

I suppose it all depends finally on what Moscow decides. If Moscow decides that Jimmy Carter is going to be elected—and they like Jimmy, they don't want a Republican—they may decide to have a peace offensive, and therefore things will quiet down. If they decide that a dangerous Republican will be elected, they may hurry up the whole process. Then, they have set things in operation which they may not be able to stop. It's a very iffy situation; 30-60 days will throw an awful lot of clarity on both ends.

**Q:** What I find most interesting in the conception you're laying out is the global approach, that you look at the Middle East together with Latin America and not to divide it up.

**M:** You see, the amazing thing about today is that we

now have only three to four human contingents. Before, and even after, the Second World War, you could find no common determination in human power from nation to nation that would cover an awful lot of them together. Whereas, today, there are about two to four blocs. The only virulent one, the one that seems to have power of recoil, power of lasting, is Islam. Catholicism has none; Christianity has none; Judaism has none. Whereas, the West, by which I take North America, Russia, Britain I suppose, and New Zealand, and perhaps some of Europe, share one consensus of feeling about the human condition of what they should live in life or should live for. Arrayed against that you have what we'd never had before, you have a bloc of consensus, of Latin Americans who feel the same as the PLO. And you have Irish IRA who feel the very same as the PLO, and as the Iranians. Then you have whatever people really feel that Russia is the leader of their destiny, and there are certainly millions that do follow that and will fight for it. And beyond those three blocs, there's nothing else moving in the world. And what we're talking about here is the real power, the real source of power that maintains this thing. A leader can get hold of it and the people and lead them to hell or heaven.

In this country, it's gone dormant...

But in this world around us, there is the strange unanimity, that makes a Fedayeen fighter the same as a Sandinista. Sometimes he is using the same gun...

Yes, it's all been unified. It's all been coagulated. We're not faced with a simple figment; we're not faced with trouble in Iran and trouble in Latin America. There is a coordinating thing, and unfortunately, it's not merely in the mind of some vile and mischievous coordinators. There a *reality*, because the poor see no hope. They don't see themselves getting any better. And between you and me and the wall and Milton Friedman, they're not going to get better, socially and politically; they're not going to get better. Their babies are going to die; poverty is going to continue.

### **Terrorism for a world government**

**Q:** There's going to be more terrorism?

**M:** That's right; there's no way out of it. I remember I was on a show with Bill Buckley once and I was talking about this and he said, "Well, we have one great thing to export; we export modernization and that helps raise people's living standards.

But it took me about three hours later over dinner to explain to him what I thought, that this was the very thing that was going to give them indigestion. And we disrupt the whole thing, because they're not ready for it. They can't take it and they have a human right not to be disturbed...

I'll tell you, I'll tell you something. I think it's all too

facile an answer to say Moscow. They're behind a hell of a lot. But, supposing I give you a scenario.

Supposing you were convinced, you, yourself, you're convinced that if we go as we go, that there is no way of feeding and taking care of the human population in 1990 and after 2000. And supposing you know in addition that people will not change, and they will not give up the 'good life' for the sake of the Cambodian boat people, or they will not disrupt an ally like the Shah because he is useful for oil, or Saudi Arabia, because they're useful for oil, or they will not disrupt whatever monopolistic relations they have with Latin American countries because it's too good for politics. And they will not disturb our relationship with Israel because of the tremendous political wallop that they have in this country—nobody can be elected.

You would say, OK, let's create disruption so that finally the idea of—not exactly One World Government—but the idea of the total inter-dependence of all the blocs is so livid and vivid and brought home in such concrete ways that they have to do something about it. And we can avoid the greater disaster of starvation and disease and the terrible social and political tearing of the fabric that would be the consequence of that.

Then, I could see you planning to do that, especially if you were, happily or unhappily aided by the desire of Moscow to subvert and to play upon the misery of millions. In other words, I think it's not quite as simple, it is an element, but it is not a simple thing to just say Moscow.

**Q:** I've looked at this question of terrorism, and I know that there are people who are looking at the thing from the standpoint of the necessity of establishing a kind of New World Order or an international juridical approach which will solve these problems, and that unless you do it on a kind of global basis it won't work.

**M:** That's right. It won't work.

**Q:** I've noticed, for instance, that Richard Falk has written something on this which is similar. So that's the kind of thing you're talking about?

**M:** So that's the kind of thing I'm talking about. Even the so-called oil shortage or the rising price of gasoline or inflation—it still can't get anything moving. No amount of film about boat people or Cambodians or Pol Pot's atrocities or Idi Amin's atrocities, nothing moves us.

**Q:** Won't the United Nations serve as a kind of vehicle for establishing these global concerns?

**M:** No, no. I don't think so.

**Q:** Why not?

**M:** Because it's charter would have to be changed.

# International Intelligence

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## EUROPE

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### *W. German says Soviet move was "preemptive"*

Herbert Wehner, West German Social Democratic Party (SPD) leader and one of the architects of East-West detente, told a March 24 radio audience in that nation that the Soviet Union's invasion of Afghanistan was a "preemptive" strike aimed at "maintaining the sphere of influence they have had there since World War II." The Soviet Union could not simply watch part of their sphere becoming "so to speak, 'independent,'" said Wehner.

The Soviets were also probably motivated by the desire to protect their own Muslim populations from the waves of fundamentalism sweeping the "so-called Islamic world," added the Social Democratic parliamentarian.

Wehner's radio interviewer asked whether detente would be destroyed if the Soviet armies did not withdraw from the western Asian nation. "I do not want to sound ironic," replied Wehner, "but what happened to peace while the Americans did not withdraw from Vietnam?...It took a lot of patience then, and also the Americans' readiness to close that chapter."

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### *Swedes vote antinuclear in "rigged referendum"*

Ill-informed Swedish voters recorded what could be a major setback to nuclear power development in their country at the polls March 23. A referendum featuring three propositions on nuclear energy found well over 80 percent of Swedish voters in favor of the two most antinuclear choices. The result of the vote could lead to nationalization of the industry in Sweden, under conditions in which prospective government coalitions

are committed to reducing nuclear energy production dramatically.

The voters, were in any case given no pronuclear choice in the referendum. The three choices offered were: 1) That six nuclear installations now operating be maintained, and six now under construction be completed; 2) That the six under construction be dismantled, and the six operating installations be terminated within a 10 year period. 3) That the 12-reactor battery be completed but that they and the entire energy sector of the Swedish economy be nationalized.

Even proposition 1, critics pointed out, contained no provision for further development of nuclear energy.

Only 18 percent voted for proposition 1. Approximately 38 percent voted for the most antinuclear proposition 2, and 42 percent voted for the proposition 3 whose distinguishing feature is the provision for nationalization.

Suggestive of the fact that the fight to maintain nuclear growth is not finished, during the referendum campaign period, an organization called the Swedish Association for Nuclear Power Development (FKU) gained thousands of new adherents to its proposals for rapid nuclear energy development. The registered dues-paying membership went from 600 in December 1979 to over 5,000 by the time of the March 23 vote. The FKU denounced the referendum as a "rigged set of choices."

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### *Cossiga Cancels EEC meet for Britain*

Italian Premier Cossiga, though heading only a minority caretaker government in Italy, used his capacity as chairman of the European Economic Community March 24 to postpone the scheduled March 31 summit of the nine EEC heads of state. The Cossiga proposal, since accepted, came amidst growing speculation that the British government faced a trouncing at the summit that might lead to its forced expulsion from the Community.

The same day, the London *Observer* editorially worried that "A political momentum is developing which may yet take Britain out of the EEC...The fact that nobody in power is talking in terms of eventual withdrawal yet should not lead people to think that the possibility is necessarily remote...The momentum could become irreversible."

In fact, since Helmut Schmidt and Giscard d'Estaing, heads of state in Germany and France, respectively, held their third summit of the year last week, British newspapers have been speaking fearfully of a "reverse Waterloo" should Prime Minister Margaret Thatcher go into an EEC summit with a position opposing that of the continental leaders—as she had promised to do on the issue of British contributions to the EEC budget.

The real issue has begun to leak out in some of the leading European newspapers. The *Frankfurter Allgemeine Zeitung*, for example, reported that the key to developments is France's determination to reduce Great Britain's international status, ostracizing it from the EEC, because of the "diverging world political activities" of the two powers. The focus of the Franco-British fight has been Giscard's collaboration with West Germany in the formation of the European Monetary System, which recently secured the bulk of the Arab countries' petrodollar surplus to strengthen its position against the British controlled International Monetary Fund.

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## SOVIET UNION

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### *Pravda charges Kissinger created Mideast crisis*

The crisis in the Middle East is the outcome of what Henry Kissinger and James Schlesinger began a decade ago, charged the Soviet Communist Party



## Briefly

● **YUVAL NE'EMAN**, the father of Israel's nuclear bomb capability, will tour the United States from April 9 to 26 as part of a self-appointed "truth squad" of Israeli hardline leaders committed to putting pressure on the presidential candidates to support Israel. The group will launch a media campaign "designed to encourage candidates to make far-reaching commitments to Israel, for which they will be held accountable later." Accompanying Ne'emman will be such extremists as Geula Cohen of the Knesset, and Rabbi Eliezer Waldman.

● **YASSER ARAFAT** will be arriving in New Delhi soon at the invitation of India's Prime Minister, Mrs. Indira Gandhi. Mrs. Gandhi's opening of full diplomatic relations with the Palestine Liberation Organization is the successful outcome of the latest series of talks between the French and Saudi Arabia. There are clear indications that French President Giscard d'Estaing in his recent trip to the Middle East had laid the foundation for an axis around Iraq, Saudi Arabia and India. India's recognition of the PLO tends to confirm this.

● **ZAIL SINGH**, India's Home Minister, told the Indian parliament that recent troubles in Northeast India, centered on the strategic state of Assam where separatist elements have paralyzed the state, are of foreign origin. Singh pointed a finger at the CIA, at U.S. Ambassador Goheen, and at foreign missionaries active in the region promoting anti-Indian movements among the Christianized hill tribe populations. Unnamed but also involved are the Chinese, neighboring Bangladesh, and the Jesuit order.

newspaper Pravda March 24. Authoritative commentator A. Petrov said that Kissinger's "step-by-step" diplomacy was the intended precursor of the disastrous Camp David pact between Israel and Egypt, while it was Schlesinger whose threats "led to the formation of the 'rapid response corps'." Petrov charged that this Mideast policy was an aspect of a broader U.S. policy to carve the world up into "spheres of vital interest."

Petrov asserted that such a sphere-of-influence policy has "cost the lives of millions of people" during the past century.

Washington has diminishing support in the Persian Gulf itself, the article continues. "It appears that the U.S. doesn't notice the discontent of the countries in and adjacent to this region when Washington attempts to pull them into its military orbit."

## MIDDLE EAST

### *Kissinger preempts U.S.-Iran hostage deal*

The ailing Shah of Iran departed his place of exile, Panama, just hours before a deal was to have been finalized between Panamanian president Torrijos and Iranian president Abolhassan Bani Sadr, with the covert blessings of U.S. security chief Zbigniew Brzezinski. According to numerous press accounts the hostages were to have been transferred to the custody of Abolhassan Bani Sadr's government from the militants in exchange for a pledge from Panama to extradite the Shah.

Kissinger, a close confidant of the Shah, intervened and succeeded in getting the Shah to leave Panama. According to the Egyptian daily *Al Ahram*, the Shah was told that the CIA was going to assassinate him through poisoning if

he stayed in Panama. Moreover, Kissinger's colleague David Rockefeller had convinced the Shah that extradition was imminent. As a result of such advice the Shah hastily departed.

Brzezinski was evidently hoping that a deal to take the hostages out of the hands of the militant captors would strengthen his allies Bani Sadr and Foreign Minister Ghotbzadeh.

Shortly after the Shah's arrival, an angry Brzezinski told the press that Washington was through with trying to help the ailing Shah. The collapsed deal according to Middle Eastern sources has significantly weakened Ghotbzadeh and Bani Sadr's position inside Iran.

### *King Hussein cancels trip to U.S.*

Jordan's King Hussein angrily cancelled his scheduled visit to Washington next month after learning that the day of his arrival would follow on the heels of the Washington visits of Egyptian President Sadat and Israeli Prime Minister Begin to consolidate the Camp David pact. The King's abrupt cancellation underscored his continuing refusal to be associated with the Camp David process and his reluctance to cooperate with what he and the rest of the Arab world consider the Carter administration's irresponsible Middle East policy.

The invitation to King Hussein was extended by the U.S. ambassador to Jordan at the request of the State Department, which says it did not know that Carter was planning the Sadat-Begin summits—a policy initiative of Zbigniew Brzezinski's National Security Council. King Hussein accepted the invitation, but upon learning that he would arrive in the U.S. at about the same time as Sadat and Begin, angrily cancelled the trip.

Once a frequent visitor to Washington, King Hussein has not visited the United States since 1977.

## Exclusive: McCormack talks on fusion power

by Kathy Stevens

The Soviet Union is closing in on the development of particle beam weapons systems as the effective means of developing an ABM capability.

This was the gist of recent testimony given behind closed doors to staff and members of the House and Senate Armed Services committees by General George Keegan, the former head of Air Force Intelligence, and aerospace industry specialists. Their conclusion is further corroborated by Western European intelligence sources who estimate a deployment capability within two years.

What are the implications of this reported breakthrough? First, an ABM capability depends on the overall functioning of an integrated system that includes satellites for monitoring or tracking, advanced radar networks, cheap and effective conventional missiles with sophisticated guidance and warheads, laser beam weapons and particle beams.

Second, such capabilities imply a depth and a basic scientific underpinning, a point which General Keegan, in particular, chooses to ignore in advocating an "wunderwaffen" approach to matching Soviet advances in military technology.

Third advanced capabilities in depth can only be developed on the basis of a strong civilian economy where industry is coupled to a large and growing science and technology effort.

On all three points, there must be a fundamental change in economic and foreign policy if the United States is to develop and apply the science and technologies required to match reported Soviet capabilities. A case in point concerning U.S. policy is what has hap-

pened to the U.S. nuclear research and development program since the incident at Three Mile Island nearly a year ago. More than a dozen nuclear plants have been shut down since Three Mile Island. All nuclear reprocessing facilities have been closed. And new regulations are under consideration that would prevent any plant within a 10 mile radius of a city, stop new construction until evacuation plans have been worked out and even shut down nuclear power altogether.

The only serious fight to come forward since the events at Three Mile Island has been from the LaRouche for President campaign and the office of conservative Washington Democrat Mike McCormack. The congressman has introduced into the House a bill, H.R. 6308, establishing a national commitment for an Apollo-style program to develop a commercial fusion power reactor before the year 2000 at an estimated cost of \$20 billion. The bill has 140 cosponsors including House Majority leader Jim Wright and Minority leader John Rhodes. It is estimated that, at minimum, it will result in immediate funding for fusion research and development above the Carter administration's fiscal 1981 budget request.

If harnessed, fusion, the reaction that powers the sun, would provide a cheap and virtually limitless source of energy for an expanding economy. The fundamental research involved in the development of fusion technology touches on questions at the frontiers of physical science.

McCormack, after a 20 year career as a research scientist at the Hanford Project, one of the U.S.A.'s

leading nuclear research facilities, was elected to the United States Congress from the Fourth District of Washington in 1970 and has been reelected four times. McCormack currently serves as chairman of the Energy Research and Production Subcommittee of the House Science and Technology Committee and is known as one of the most knowledgeable and vigorous proponents of high-technology energy production in Washington, D.C.

In conversation with *EIR*'s energy codirector Marsha Freeman, Rep. McCormack discussed some of the implications of a crash program for thermonuclear fusion.

### **A conversation with McCormack**

**Q:** How willing will industry be to get involved in something like a large-scale fusion project?

**A:** I believe that industry is going to need the assurance from the administration and from the Congress that the programs will be carried out and managed and continued responsibly before we'll have very much industrial money in these programs. This is going to take some time and some real, visible commitment and a degree of public support that will guarantee that commitment would continue from one administration to the next.

**Q:** And that was much of the purpose of your fusion bill?

**A:** Yes, that's right. Obviously any 20-year program is going to run through several administrations and we need to make it a matter of national commitment that everyone understands. We must, above everything else, abandon this idea that we can change our long-range mainline energy programs with each new administration.

**Q:** What would your feeling be on the economic payback to the economy?

**A:** One can look at the long-range implication—having a new and extremely important, overwhelmingly important energy production technology. That's the major payoff. The second implication is that in the intermediate term, starting almost at once, you have additional benefits in superior technology as far as nuclear fission is concerned. Third, these programs provide money pumped into the American economy and provide jobs for researchers, scientists and engineers, and vendors and fabricators. In that sense, even if one doesn't assign an intermediate or long range value to these programs, they still are just as valuable to society in the immediate timeframe, or in the next few months, as a CETA program or any other program which results in hiring people.

**Q:** My understanding is that most of the energy technology programs of the Energy Department will not really

be very much affected by budget cuts.

**A:** I think if one wishes to be quite cynical about it one can ask what percentage of federal expenditures does one wish to have spent for no benefit, what percentage for immediate benefit, how much for long-range benefit. Certainly the research and development programs have both immediate and long-range benefit, and sometimes intermediate benefits, too.

**Q:** How do you see what you're doing intersecting the national discussion that is taking place on energy policy?

**A:** I hope it's providing some influence. I have taken it upon myself to provide some information to each of the presidential candidates, or to most of the presidential candidates, on fusion and my fusion legislation. I intend to continue to provide information on major energy-related subjects that may become political issues, so that candidates will have the facts and not get themselves in a position that they would make unfortunate statements based on lack of information.

**Q:** Using the phrase, "an Apollo-style program for fusion" does go back to a time when there was a tremendous amount of government-vec-tored investment in high technology areas. . . .

**A:** Between then and now, the difference is not so much in dollars as in commitment.

**Q:** France's President Giscard d'Estaing is trying to set up a number of bilateral and multilateral agreements with the oil-producing countries to ensure that France and other Western European countries have an assured, reasonably priced supply of oil. I think he has been able to do that because of the commitment to export technology to these countries.

**A:** I think this is quite valuable. I have toyed with the idea of trying to sell energy credits, to buy oil with energy coupons cashable in the future, in the 21st century. We would pay part of the price of the oil—instead of paying \$30 per barrel we'd pay \$15 and give the other in energy credits in terms of 21st century provision of fission or fusion production machines in those countries that over a reasonable length of time could produce the same amount of energy. I think if we had an appropriate degree of imagination in this administration we would look seriously at that. It would save us a great deal of money now and provide them with energy then.

**Q:** One thing that impressed me in your bill was your reference to the export of fusion technology when it is available. Would this provide the basis for some kind of reasonable trade agreements.

**A:** It's critically important. We should think of fusion as being for all mankind right from the start. It can be the most important deterrent to war in all of history.

## **The House votes against production**

*Congressmen voted up a Carter tax that claims to target "windfall profits;" in fact, it will put independent oil producers out of business.*

**T**he so-called windfall profits tax, more properly, the Crude Oil Excise Tax of 1980, passed a House of Representatives vote 302-107 earlier this month. This week, the Senate is beginning debate on this bill, which may soon become the largest single piece of tax legislation in U.S. history.

It is astounding how little serious debate has focused on the central issue of this new tax. It is not, despite its popular name, a profits tax of any kind. It is a tax on production of oil at the well-head. Reduced to essentials, the bill is designed to drive a significant percentage of independent producers out of business.

The reason is that the independent producer is just that, a producer, whereas the "oil majors" are marketing monopolies—whose high profits from foreign bases are specifically exempted from the tax. The bill is designed to drive oil supplies down, to drive prices up, and use the "choking" of industrial production that results to further a "controlled disintegration" economic policy for which this new tax is only a subsidiary item.

As with previous, disastrous Carter administration energy legislation, no attention has been focused on the economic philosophy *behind* the legislation. Many good, serious energy producers I talk with around the nation, hearing the bill is about to become law, now ask in stunned amazement,

"What is this all about?" How did Carter administration strategists sell this disastrous bill? Part of the answer is the susceptibility of the oil industry, and in particular, the smaller but politically influential "independent producers" to Friedmanite "free enterprise" ideology. The producers were offered the carrot of price decontrol ("Higher energy prices will allow us to produce more"), in return for allowing the so-called windfall tax to take "excessive profits." With this two-part disguise, the administration simply reintroduced a policy that, undisguised, had been stopped dead only months before. At that time, when the bill was called the "Crude Oil Equalization Tax," James Schlesinger and Henry "Scoop" Jackson lost when Senate Finance Chairman Russell Long (D-La.) insisted that proceeds from a \$100 billion oil tax be plowed back into energy production.

Malthusian Schlesinger dropped the tax rather than agree to anything that might increase production.

Yet today, under the title "windfall profits tax," Congress is on the verge of making into law a \$227 billion tax on oil *production*, of which not a cent is likely to go anywhere useful.

The words of my friend, an independent oil and gas producer from the Rocky Mountain region, still echo in my mind: "I have come to the sad conclusion that

the administration in Washington is a greater threat to our way of life than the Soviets ... And the Soviets I regard as a major threat."

### **The bill's background**

Let's look at the background to the present tax bill. Recall last April, when our President went up on the mountain and summoned all the "wise men" in the nation to counsel him on the energy crisis. Robert O. Anderson of Atlantic Richfield went up on the mountain. He heads the Aspen Institute, a British-controlled zero-growth strategy center. Also present was Dr. John Sawhill, then president of New York University. He is also a key policymaker at Aspen's Energy Committee meetings, and sits on the Trilateral Commission and the New York Council on Foreign Relations, which drafted Carter's "controlled disintegration" policy. Sawhill personally helped draft that policy, and its provision to use energy as the "choke point" against economic growth. After the summit, Schlesinger left, and Sawhill became number two behind Charles Duncan at the DOE.

What sort of energy legislation did you expect from such "wise men?" Artificial shortages of gasoline created temporary line-ups at the pumps in selected locations around the nation at the inception of the "Iran crisis." Then came a "stick and carrot" proposal. First, the carrot: promised lifting by phases of the 1971 oil price controls on domestic crude production. To a credulous nation, Carter declared this would encourage domestic oil production. He was lying. Then the stick: money-hungry oil companies' profits would be curtailed through a windfall profits tax, to

provide hundreds of billions for a domestic synthetic fuels industry.

This went through some changes in the ensuing congressional floor fights. By the time the House was ready to vote on a version this month, more than 60 percent of the revenues from production of decontrolled oil were to be allocated to permit a tax cut to households.

The economics of this, as Rep. Bill Archer (R-Tex.) correctly pointed out in floor debate, "threatens to cripple our production and drive our economy toward chaos. It isn't a plan to produce more oil." Archer added, "It will prevent the production of billions of barrels of oil." Archer led the floor fight to restore a 1,000 barrel/day exemption to independent producers. This failed.

C. John Miller, president of the largest association of independents, the Independent Petroleum Association of America told Congress that the huge tax, up to 70 percent of some categories of domestic wellhead production, is "disastrous tax policy because it will inhibit production which is vital and scatter billions in non-productive government 'giveaways' which will exacerbate an already intolerable inflation."

The House rejected by 232-180 an effort to include a plowback provision for a tax credit of up to 75 percent for producers to reinvest their profits in further oil exploration. Moreover, the administration insured this would fail. That, after all, would have defeated the point of the bill: controlled disintegration of the economy using energy as the "choke-point."

Instead, the Administration successfully divided and con-

quered. A unified opposition from both majors and independents was broken wide-open last winter when the majors, whose profits derive mainly from OPEC and foreign lift-ings—and that mainly from "downstream" refining and marketing, not actual production—were given a carrot. The administration agreed to exempt them from any tax on their foreign imports in return for their break with the 1,000-barrel exemption for independents. The majors, Exxon, Shell, Gulf, Texaco and the like, suddenly dropped opposition to the administration bill. Independent producers howled, "foul." And the CFR scenario moves closer to implementation.

### **A reorganized industry**

A word about the domestic oil industry will help clarify this otherwise paradoxical move by the administration. Through a series of I.R.S. tax rulings and legislative moves beginning during the 1973-75 OPEC price hike period, a massive structural reorganization of the domestic oil industry was affected. Major oil companies shifted production into Saudi Arabia and other countries following their successful creation of OPEC. Independents, who tended historically to function as the vital adjunct of domestic majors in risk-taking and exploration for new oil, were left with an increasingly adverse situation. Although more than 50 percent of all oil we consume is produced domestically, and some 83 percent of all new domestic exploration and wildcats are drilled by these smaller partnerships, known as independent producers, every government action over recent years has had the express aim of

driving them out of the business of producing energy. I am prepared to make the case that this has been entirely deliberate on the part of the policymakers in the major New York commercial banks and their cronies on the boards of Exxon, et al. Their profit picture is enhanced if they can limit production.

The ranks of independent producers has dwindled in recent years under these adverse legislative and administrative rulings from well over 40,000 to just over 10,000. Despite the promise of price decontrol, more will be forced to go under as the economy collapses under 20 percent interest rates and such disincentives as the latest Windfall Profits Tax.

I have talked with and personally met literally hundreds of independent producers over the months. I have developed a good deal of personal affection and respect for them as one of the hardest-working, most committed groups of entrepreneurs dedicated to production in the nation. Their patriotism is genuine and well-earned. But they will disappear, and our economic way of life along with it, unless we realize the larger strategy and deliberate intent of groups such as the Council on Foreign Relations and its subsidiaries such as the Trilateral Commission to destroy anyone committed to actual energy production. The same people who sit on the boards of Exxon, Atlantic Richfield, et al., conduit millions of dollars to fund anti-energy "environmentalist" operations which contribute to driving genuine energy producers out of business.

Next week, we will examine the "environmentalist" side of this controlled disintegration crowd more closely.

## Trucking deregulation moving to Senate floor

Senate Commerce Committee Chairman Howard Cannon (D-Nev.) is planning on pushing his legislation to deregulate the trucking industry to the floor of the Senate for quick action, possibly as early as the first week in April. Capitol Hill observers note that there is a growing backlash against various kinds of deregulation and its effects on smaller or less populated states, and trucking deregulation supporters are worried that this may visibly manifest itself to members of Congress during their Easter recess, the second week in April.

Sen. Ernest Hollings, (D-S.C.), a senior member of the Commerce Committee is a case in point. An early and strong supporter of airline deregulation, Hollings has since seen major airline service cut to Charleston, S.C. Hollings strongly opposed the radical moves toward trucking deregulation during the mid-March committee mark-up on the bill. Cannon and the Kennedy forces behind the scenes who initiated the trucking deregulation push hope to force the legislation to floor vote before the actual, devastating implications of the bill can be realized by members of the Senate.

On the Hill, rumors abound that Rep. James Howard (D-N.J.), chairman of the Surface Transportation Subcommittee of the House Public Works and Transportation Committee, will schedule mark-up on the legislation during the last week in March—again to head-off the anti-deregulation sentiment likely to be expressed during the Easter break. Howard, like Cannon, recently changed from a sup-

porter of trucking regulation to a “born-again” deregulator and is threatening to introduce legislation which will go beyond Cannon’s radical reform to completely deregulate the industry. While he is threatening mark-up, it is more likely that Howard will wait to see the final Senate-passed version of the bill before proceeding.

## Senator questions DOE on McCormack bill

At March 23 hearings of the Energy Research and Development Subcommittee of the Senate Energy Committee, Senator Pete Dominici (R-N.M.) sharply questioned Department of Energy witnesses on the administration position on Rep. Mike McCormack’s (D-Wa.) legislation to create an Apollo-style project for the development of commercial fusion energy by the end of the century. Dominici asked a panel of DOE spokesmen how the administration’s position on fusion differs from that of Rep. McCormack. When the DOE witnesses hemmed and hawed, Dominici demanded to know what the administration timetable for fusion was. Finally forcing one witness to admit that the DOE timetable is well into the 21st century, Dominici noted that it is well-known that the American way of doing things is mission goal-orientation and stressed that McCormack and a distinguished scientific advisory panel report stated that a goal-oriented fusion approach could bring us fusion by the year 1995. While Dominici has not yet endorsed McCormack’s bill, Sen. Howard Baker (R-Tenn.), recently retired from the presidential race, has indicated he may devote more atten-

tion to the legislation and focus Senate Republicans in the same direction.

Meanwhile, House Minority Leader John Rhodes (R-Az.) reiterated his strong support for fusion and for the McCormack approach on a recently televised Republican response to President Carter’s March 14 economic message.

## Export companies pushed: prelude to trade war?

During the same week in March that U.S. Steel filed a landmark antidumping suit against European steelmakers, the Senate Subcommittee on International Finance of the Senate Banking Committee held hearings on legislation to foster the formation of U.S. export companies. Sponsored by Senators Adlai Stevenson (D-Ill.), the chairman of the subcommittee, Alan Cranston (D-Cal.), John Heinz (R-Pa.) and Jake Javits (R-N.Y.), among others, the legislation would authorize the creation of U.S. trading companies—monopolies of the kind that represent Japanese economic interest worldwide, and which combine into one company the financing, shipping, marketing, and sometimes production of whole classes of U.S. goods abroad.

While in the abstract, the formation of export corporations is not particularly insidious, the coincidence between the filing of the antidumping suit and the subcommittee hearings and previous policies of especially Senators Heinz and Javits indicates clearly that the intent is to use such institutions for trade war. Supporting this analysis was the introduction in early March of the Competitive Export Financ-

ing Act of 1980 and the Export Expansion Facilities Amendments of 1980 (S. 2339 and 2340, respectively) by essentially the same group of senators. The first bill declares war on the European's use of long-term, low-interest export credits to the Third World and provides a \$1 billion war chest in the Export-Import bank to compete with Europe on that front and to force Europe to stop such practices at which time the U.S. will retire the war chest. Stevenson singles out France in particular for attack: "Nor does the arrangement, (the recent trade agreement) cover the fastest growing, most pernicious area of export credit competition: so-called mixed credits, which purport to mix export credit and foreign aid, but are in fact a guise under which the French and a few others extend long-term export credits at interest rates below minimum rates....France in particular has refused to negotiate an end to this costly practice." S.2340 provides an additional \$500 million to \$1 billion in earmarked credits to compete with Western Europe for Third World markets.

## **JEC calls for tax-cuts**

At hearings of the Joint Economic Committee on March 19, the majority of the committee carried on a fruitless argument with Federal Reserve Board Chairman Paul Volcker about the need for an immediate tax cut. Volcker and Rep. Henry Reuss (D-Wisc.) have essentially ignored that issue and are planning, in public, tighter fed control over the banking community.

JEC Chairman Lloyd Bentsen (D-Tex.), keynoted the remarks of the rest of the committee Republi-

cans noting that it was good the administration was cutting the budget, but that high interest rates alone have hit selected sectors of the economy such as housing and business investment. Bentsen asked Volcker when he or the administration would support the JEC's proposed tax cut as a way of stimulating investment and rejuvenating the plant and equipment of the nation's industry. Volcker waved the question aside, saying only that once the budget was balanced and inflation brought under control, only then would he consider a tax cut.

Lost in the rhetorical fireworks between Bentsen, the Republicans and Volcker, was the exchange between Reuss and Volcker. Reuss commended Volcker on implementation of the Credit Control Act, and the setting of voluntary standards for the issues of commercial bank loans. Reuss then asked how the Fed was going to monitor compliance with those standards and urged that the Fed share the newly mandated monthly reports from the banks to the Fed with the Congress, so that Congress and the Fed can jointly police the banks.

Reuss is moving quickly to tighten control over the nation's banking institutions in the wake of the successful House-Senate Conference Committee resolution of the Depository Institutions Deregulatory Act. The House-Senate Conference resolved all the essential House and Senate differences on the bill in the 3rd week in March and the bill was sent to the House floor March 24. The bill vastly increases the control of the Fed over commercial banks, through the imposition of reserve requirements on all banks above a certain size, and

over savings and loan and other thrift institutions, through changes in regulations which formerly differentiated thrift institutions from commercial banks. The bill is expected to pass through Congress and be signed by the President by March 31.

## **Congressional Black Caucus supports balanced budget**

On March 24, members to the Congressional Black Caucus held a press conference to criticize the Carter administration's proposed budget cuts. They attacked the administration for hurting, in particular, minorities and the poor with their planned cuts. However, all the members of the Caucus, with the exception of Dellums (D-Cal.) and Conyers (D-Mi.) supported the idea of a balanced budget, a surprising endorsement of austerity.

The Caucus did not offer any specific proposals in place of the administration's, but members stated that they would be drafting proposals off an alternative "human needs budget" being drafted by Rep. Parren Mitchell (D-Md.). Mitchell's budget alternative will plan a balanced budget by reducing tax loopholes for industry. That the Caucus is looking at proposals that will severely hurt U.S. industry was indicated by statements by Mitchell that corporations would have to learn that "profits are in and of themselves inflationary." He also attacked such necessary industrial infrastructures as America's inland water systems as merely something for big business. Mitchell declared that such programs should not receive government subsidies.

# National News

## Is Harold Brown nuts?

Testifying before a House Appropriations Subcommittee on the proposed MX missile program, Secretary of Defense Harold Brown was asked by Rep. Gunn (D-Vt. (whether the program was in fact necessary. Shouldn't the U.S. simply inform the Soviet Union that if it detected a Soviet launch against the U.S. we would shortly launch a full strike against them, asked Rep. Gunn, the chairman of the Military Construction Subcommittee. "Wouldn't this make the MX program a waste of time?"

Brown replied that it is absolutely not U.S. policy to "launch on warning." Said Brown: "That would be going to war by computer and that is a mistake."

A spokesman for the subcommittee said that it was his knowledge that Brown had altered U.S. strategic doctrine last year, in the policy memorandum codenamed "PRM-32." The spokesman stated that contrary to actual Soviet military doctrine, it was Brown's view that the Soviets "might not" launch all or most of their missiles and that the U.S. should be prepared to meet such a challenge with a "measured response."

It was also Brown's view that the "president needed more than a few moments to decide" about a response. The Pentagon feels that current U.S. detection and surveillance systems, as well as computer response programs, are inadequate.

The subcommittee spokesman said that it was Brown's strategic doctrine of "limited or measured response" that makes the MX or some similar program "militarily feasible and necessary."

In his testimony, Brown claimed that the MX program, which will, if approved by Congress, not be deployed until 1987 at the earliest, would prevent the Soviets from launching a "first strike." The Soviets, said Brown, will realize that the "U.S. will have the ability no matter what" to strike back.

Another source on Capitol Hill

pointed out that U.S. doctrine, according to PRM-32, does not rule out a first strike against the Soviets. This source said that Brown's MX program is "useful in a first strike," so cuts both ways. Brown has also stated that the Soviets can't be sure that the U.S. won't launch on warning. U.S. doctrine is apparently based on giving the Soviets the appearance that it has no doctrine.

## Reuss proposes Volcker takeover U.S. industry

Wisconsin Democrat Henry Reuss, chairman of the House Banking Committee placed in the March 10 *Congressional Record* a proposal that the President create a new Department of Industry and Trade which would use the staff of the Federal Reserve to direct the reorganization of U.S. industry. Reuss specifically proposed that the new Department "rationalize" the auto industry, the steel industry, and the transport and food industry. "Reuss has a broad restructuring of the economy in mind," declared his aide.

Reuss's proposal on the trade department combined with the omnibus banking bill that passed the House March 27 would give Federal Reserve Chairman Paul Volcker control over all U.S. banks and corporations.

In his statement to Congress and in a letter sent to President Carter, Reuss proposed that Carter establish the new Department of Industry and Trade by executive fiat, using the authority of the Government Reorganization Act. The bill allows presidential reorganizations to become law 90 days after proposed, if not stopped by Congress.

The Department would operate through the nationwide apparatus of the Federal Reserve System. "The new productivity increases, the structural reforming, the reindustrializing activities of the Department of Industry and Trade could be enhanced by drawing on the expertise of the 40,000 Federal Reserve employees now at work in Washington, D.C. and in the 12 cities housing

the Federal District Banks and in their 26 branches and 46 centers," says Reuss. Thus the Federal Reserve, which is already rationalizing the United States economy through a policy of tight, selective credit allocation, would be able to directly reorganize U.S. industry.

Reuss specifically proposed that the rationalized industries operate in the context of overall austerity, a balanced budget, tight credit, wage and price controls, and gasoline rationing.

The White House is now considering the Reuss proposal, watching for signs of opposition.

## CSIS calls for trade warfare against Europe

At a March 26 conference, Georgetown University's Center for Strategic and International Studies announced the release of two monographs on U.S. export competitiveness, which touched off demands that the United States initiate trade warfare against its continental European allies. The Center's directors of the Export Competitiveness Project at Georgetown, Drs. Robert Kilmarx and Michael Samuel, denounced Europe for its extensive trade with the Third World, and warned that the U.S. was not in control of these trade patterns.

Declared Robert Kilmarx: "We are living in a dream world concerning our allies. They are self-serving, nationalistic and jingoistic with respect to their subsidy policies. We have to recognize that outside of NATO they have limited commitments with us in the rest of the world."

Similarly Samuels attacked "our so-called allies" for "behaving in their own national interests." The reports that will be released March 31 by the Center on export policy echo this same idea. Asked what should be done to stop the independent European trade policies, Drs. Kilmarx and Samuels demanded an aggressive U.S. export policy, that would break the European effort. They endorsed the legislation sponsored primarily by Senators Heinz (R-Pa.), Stevenson



(D-Ill.) and Javits (R-N.Y.) for export trading companies for the Export-Import Bank to expand U.S. exports. At hearings March 7 and 19 on the Export Financing Act of 1980, a proposal to increase funding for the Eximbank, Senator Stevenson specifically singled out France for attack. He denounced the French government policy of low interest rate credit to former colonies as merely a "guise under which France gives export credit below the rate of the gentlemen's agreement."

## Carter fails D.C. petition challenge

Who will Jody Powell vote for on May 6, the date of the Democratic primary in the nation's capital? Because he won't be able to vote for his boss, Jimmy Carter.

Citizens for LaRouche, the principal campaign committee for Democratic Presidential candidate Lyndon H. LaRouche, Jr. has mounted a legal challenge to President Carter's petition signatures which were turned in to qualify the President and his slate of delegates for the District of Columbia's primary ballot. Carter's signatures numbered only 1,370. A total of 1,000 signatures in each of two Congressional Districts is required.

Doing a line-by-line scrutiny of Carter's petitions, CFL disqualified 650 Carter signatures. CFL representatives also found numerous cases where Carter campaign workers who had circulated petitions "padded" the number of signatures by signing their own names two or three times.

The validity of the CFL challenge was tested by over 17 frantic Carter/Mondale campaign representatives who poured over the petitions for two days. Observers on the scene report that the CFL challenge was found to be 90 percent valid.

The Democratic Central Committee petitioned the Election Board for a "review" of the signature requirements at their March 19 meeting.

Democratic State Committee chairman, Robert Washington, in a written affidavit presented to the Election Board meeting, claimed that only 1,000 total signatures were required for ballot status in both Congressional Districts. Two months earlier, brochures were mailed to every Democratic voter in Washington, D.C., which clearly stated that 2,000 signatures were required. Those brochures bore the signature of Robert Washington.

Attorneys for the Carter campaign have filed a motion to dismiss CFL's challenge on the grounds that the challenge does not specify both the President's and his delegates' place on the ballot. If this motion is successful the President would be on the ballot but his delegates would not.

## FEC comes under fire

The Federal Election Commission came under fire last week as it went before the Senate Rules Committee to ask for its 1981 budget.

Strong attacks were made against the Commission by a spokesman for Citizens for LaRouche, the campaign organization of Democratic candidate Lyndon H. LaRouche, and Senator Mark Hatfield, Republican of Oregon, for harassment of honest citizens seeking to participate in the political process.

Felice Gellman, Treasurer for Citizens for LaRouche, informed the committee that the the FEC press office was providing certain press "targets" among LaRouche's contributors. These contributors were then "harassed" by reporters who called them trying to concoct anti-LaRouche stories.

Senator Hatfield attacked the FEC for its prosecution of a Long Island, N.Y. taxpayers group which had spent \$135 to circulate the voting record of a particular candidate. The group had not filed a report with the FEC. If the FEC could provide no better information as to what FEC attorneys intended to do with their requested additional \$450,000 Hatfield called on Congress to deny them funds.

## Briefly

● **THE NEW YORK** Council on Foreign Relations (CFR) will meet this week at its New York City headquarters. The meeting's agenda will deal solely with "Implications for the Superpowers" of recent world developments and will be attended by past and present members of the U.S. National Security Council, including Zbigniew Brzezinski, Winston Lord, William Highland, Richard Burt, Fuada Agami, and Michael Oksenberg.

● **ED KOCH**, New York's mayor, thinks a transit strike might not be so bad for the city. "I would like to see New York start looking more like Peking," Koch said. "In Peking every morning thousands of people ride to work on their bicycles."

Koch, who also created a small furor by saying that he thought the Chinese school system was "more effective" than the American, was recently "re-educated" during a two week stay in Peking.

● **RONALD REAGAN**, the leading contender for the GOP presidential nomination, is even less popular in oil-giant Saudi Arabia than James Earl Carter, according to an informed source who quickly added, "if such a thing is possible." The Saudi princes, the source continued, "have identified Reagan's advisers and they won't come near him." It appears that disillusionment in Riyadh with Washington's current policies has spilled over into "total disenchantment" with what the upcoming U.S. presidential elections hold in store. The Saudi ruling family thinks George Bush is "a jerk." And, the source added, "they despise Carter only a little less than they despise Ted Kennedy."



## The anti-Carter 'surge'

President Carter's thrashing in the March 25 New York and Connecticut primaries may be the beginning of the end of his reelection drive. The final results, giving Ted Kennedy 59 to Carter's 41 percent in New York and 47 to 41 percent in Connecticut, agree with the latest AP/NBC poll which reports Carter's popularity rating dipping to where it stood before the Iran crisis lifted him out of the pits.

The media has immediately acknowledged the anti-Carter "surge" within the population, unreported until recently, while stating that the results have also revived the sagging fortunes of Senator Kennedy.

That deserves important qualification. The anti-Carter surge has been building for some time. Carter's approval ratings on foreign policy and economic policy have always been abysmally low; only the rigged character of the polling services has hidden this. Until the most recent period, policy circles around the New York Council on Foreign Relations, which control the media and the polling services, propped up their puppet president. Now, these circles have decided to let the air out of the balloon.

Hence, the media report a "sudden anti-Carter surge."

Ted Kennedy's phoenix-like rise can be explained in a similar way. Kennedy is universally acknowledged as perhaps the most singularly unpopular politician in memory. The vote for Kennedy has been anti-Carter; the vote for Carter has been anti-Kennedy. And the low turnout in both New York and Connecticut shows that many people really can't stomach voting for either under any circumstances. Kennedy could never get the nomination; events will soon show that neither can Carter.

The upshot of New York and Connecticut voting, as an informed observer put it, is that "the whole Democratic ballgame is up for grabs. We may well see a dark horse candidate moving into the spotlight soon."

## Kennedy: A new Henry Wallace?

Kennedy's New York and Connecticut primary wins could convince him to launch an independent candidacy, observers say.

According to one old hand in Democratic Party-labor politics, "the real danger of Kennedy doing well in New York is that this may encourage him to stay in the race. ... I absolutely would not discount the possibility of Kennedy doing what Henry Wallace did in 1948—running as an independent—if he doesn't get the nomination."

An "independent Kennedy candidacy" scenario was first mooted by a leading Republican last October. In an interview at that time, Hoyt Ammidon, chairman of the board of the U.S. Trust Company, a member of the New York Council on Foreign Relations and the Ditchley Foundation, confidently predicted that Kennedy "would definitely bolt the party

and launch an independent candidacy" if he lost the Democratic nomination.

## Zionist lobby moves behind Reagan

Leading Zionist Lobby spokesmen are loudly touting Ronald Reagan as the best presidential candidate and not just because of his strong commitment to Israel.

One top official with the World Zionist Organization last week explained his support for Reagan:

"We have to prevent the French from outflanking the U.S. in the Mideast, and the only way we can do this is by electing Reagan. Reagan will lead us on the path to rearmament so that we'll be able to command respect from our allies once again. ... The other problem we have is economic; but the problem doesn't stem from high interest rates or the declining value of the dollar. The problem is we need more productivity and we need a strong man in the White House who can leash the unions."

## LaRouche places third in Connecticut

Democratic presidential candidate Lyndon LaRouche placed third in the March 25 Connecticut primary, outpolling Jerry Brown by more than 1,000 votes. LaRouche, who had not campaigned in the state, won more than 3.5 percent of the vote, with a total of 6,333 votes cast. Another 12,925 Democrats voted "uncommitted," reflecting widespread disgust with both Carter and Kennedy.

LaRouche, considered by party professionals to be an unpredictable factor in the campaign, is known for his strong advocacy of a nuclear-energy based industrialization program for the U.S., and a gold-based monetary system.