EIR
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Club of Rome cults: killing the American Dream
Whose 'arc of crisis' in the Caribbean?
Tax policy: can productivity collapse be reversed

The Trilateral Commission strategy to bring back the 1930s

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EIR

From the Editor-in-Chief

"No real recovery is possible until there is real recession", concluded David Rockefeller, founder of the Trilateral Commission on March 27 after a meeting of the Commission in London. He thus announced the Commission's strategy to let financial markets crash, conduct all-out financial warfare against Europe, and put into place a corporatist apparatus in the U.S. to salvage whatever pieces of banking and industry they deem essential, under their direct control.

The crash these gentlemen have designed, the "real recession," will be a depression more shattering than the last with more hideous political consequences if their war against the European Monetary System alternative is won. This economic restructuring of the U.S. economy along lines resembling 1933-39 Germany was initiated by House Banking Committee Chairman Henry Reuss (D-Wisc.), and Fed Chairman Paul Adolph Volcker. Their legislation and policy measures leads the trail of evidence which proves the Trilateral's intention.

Our Special Report this week documents the legislation of this corporatist take-over and the war on Europe. We present you with all the evidence, in interviews and source documents. Our intention, however, is more than good reporting. We have prepared the evidence in order to place it on the desks of every official and executive capable of acting to assure that the 1930s strategy is not carried out.

We also draw your attention to another important report, "Club of Rome death cults: killing the American dream." Here we reveal the unified command and the common source of environmentalism, religious cults, and the policy behind them: to manipulate the population into launching its own war against scientific and technological progress, so essential to Trilateral designs.

Daniel Sneider

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Special Report

President Carter signs budget legislation as his administration's economic policymakers look on. Photo: UPI

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National

Executive Intelligence Review

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InSight

by Nora Hamerman

"1984"... by 1981

The "One World" conspiracy that this review exposed only four months ago has come dangerously close to succeeding in imposing its will over the United States. As the news stories in this issue document, the Carter administration is fully committed to imposing the economic devastation of 1936-38 Germany on the nation; and the psychological warfare experts of the Club of Rome are prepared to put the population through the process of "bereavement" advocated by death cultist Elisabeth Kubler-Ross, to make Americans learn to live with the loss of technological supremacy.

As in Italy in 1922 and Germany of the early 1930s, there can be no question about the intentions behind the ruling circles that are opening pushing the race science of a William Shockley, the euthanasia doctrines of the "die with dignity" movement, the extermination of "useless eaters" that mascarades under fiscal austerity. The only question is whether the American people will accept fascism—there is no other word for it.

Our allies in Europe find this hard to understand. They are perplexed that in the U.S. primaries Carter consistently polls over 50 percent of the vote on the Democratic side, even though his policies are visibly leading the nation into cataclysm. They are astonished at the vote levels attributed to such media creations as the strange John Anderson and Jerry Brown. They cannot believe that a man as badly advised in economic and foreign policy as Ronald Reagan could be winning the support of large numbers of voters—and yet all of this occurred April 1, again, in the past week's Wisconsin primary.

And in Wisconsin Lyndon LaRouche, regarded by many leading Europeans as the only presidential candidate who understands Europe, was credited, again, with less than 2 percent of the vote, even after a major media advertising campaign and the endorsement of some of the state's most prominent labor leaders.

Such a monstrous fraud could only occur if the United States were already living under fascism, they protest. And yet there are no swastika-wielding stormtroopers marching in the U.S. streets. Indeed. The kind of fascism that has begun to descend on the United States—and will be irreversible by next September unless the presidential election process takes a drastic turn is "fascism with a democratic face," *Orwellian* fascism.

This is the kind of "American" fascism under which a candidate can address 20 million Americans with a coherent overview of the problems that disturb them most (the economy, Iran, the energy crisis) and the next day the news media are silent—LaRouche does not exist. Big Brother says so.

Most sobering for our overseas allies is the realization that Americans are even *less* prepared to fight fascism today than the Italians in 1922-25, or the Germans in 1932-33. The nation has morally deteriorated to the point that most Americans blindly accept what the media proclaims as truth.

The fundamental reason lies in the destruction of American culture, cut off from its roots in the tradition of Western European humanism. Most Americans do not know that the United States was formed to be the first of sovereign industrial republics spanning Europe and what came to be the "colonial" sector. They are ignorant of the great international alliances formed by Benjamin Franklin and his friends and successors, including Marquis de Lafayette, that built this nation and saved it repeatedly from destruction.

It is the blind, woefully ignorant American chauvinism—stubbornly convinced that fascism "cannot happen here"—that can watch the republic be turned into a fascist nightmare far quicker than Germany itself succumbed in 1933.

EIR Economics

TAX POLICY

Can the productivity collapse be reversed

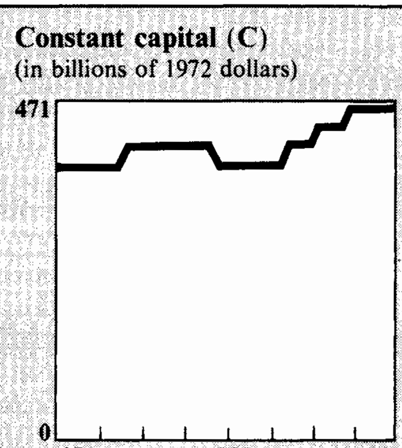
by David Goldman and Alice Roth

EIR, two issues ago, released a groundbreaking analysis of energy, inflation, and productivity, demonstrating that the Carter administration's "energy conservation" strategy was not only incompatible with the successful functioining of the American economy, but represented the chief cause of structural inflation. In the subsequent issue, *EIR* Contributing Editor Lyndon H. LaRouche, Jr. presented an economic model capable of analyzing the effects of such policies that appear perverse and random to all other econometric models.

This week, we continue in this survey the application of this economic model to answer the question: how can tax policy enhance the performance of the American economy? Three proposals prominent in the current electoral and congressional debate are evaluated: the Joint Economic Committee Annual Report, which employed a "supply-side" model developed by Otto Eckstein of Data Resources, Inc.; a proposal forwarded by LaRouche, now a candidate for the Democratic presidential nomination; and the Reagan tax policy associated with University of Southern California economist Dr. Arthur Laffer.

The core of our analysis is a computer-generated analysis employing the "LaRouche-Riemann Model" which defines the objectives of tax policy from the standpoint of the growth of the tangible product of the American economy. The controversy over the employment of tax reductions to stimulate economic growth has cen-

1. Real economic performance, 1971-1979



tered on the admitted unreliability of the analytical and computer models hitherto employed. Apart from other considerations, the failure of such models to make the distinction between productive and nonproductive investment that has prevailed in all economics through David Ricardo renders their analysis useless. The results presented below show how sterile the debate is between "demand-side" tax cuts to stimulate consumption and "supply-side" tax cuts to stimulate investment.

The Joint Economic Committee report, chosen as a congressional consensus view in favor of so-called supply side economics, presents the results of a study by DRI's Eckstein with this caveat:

"The inability of the forecasters to accurately predict employment, unemployment, and inflation in the face of reasonably accurate real GNP forecasts suggests that there are problems with either the structures of the models themselves or their assumptions respecting the behavioral responses of the consumers and businesses." That is, although DRI, Chase Econometrics, Wharton Economic Forecasting Associates and others fairly accurately predicted change in Gross National Product (GNP), their GNP forecasts were useless in predicting other measures of economic behavior. As *EIR* has emphasized repeatedly, GNP, as an agglomeration of all sales of goods and services in the economy, is an entirely misleading way of accounting for national income.

The JEC's self-critique continues, "The failure of the model builders to foresee the huge jump in OPEC prices in June, and the heightening of world tensions and their economic consequences at year end, should make us doubly cautious in accepting current economic forecasts for, if anything, political uncertainty is much greater now than it has been in the past."

In its first generation, the LaRouche-Riemann model employed by *EIR* predicted and incorporated into forecasts both the changes in the oil price and the world security situation, and accurately charted the course of the economy in forecasts made in May 1979 and October 1979. As the JEC notes, Chase, Wharton and DRI were unacceptably far from the mark. Governor Reagan's tax-policy advisor Dr. Laffer has not offered similar forecasts during 1979. However, his reputation as a forecaster became something of a public scandal during the Nixon administration, when Laffer offered an inaccurately high forecast of GNP growth while a consulting economist to the Office of Management and Budget.

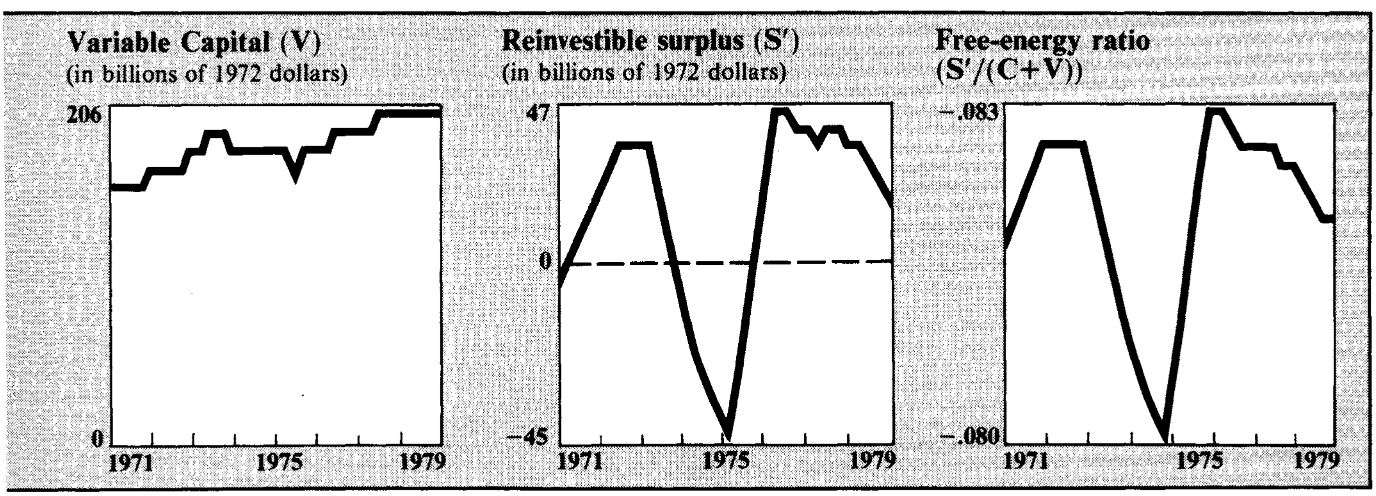
The LaRouche-Riemann model is a four-dimensional analytical view of the economy, examining both gross tangible output of the economy and the "free energy" ratio of that tangible output, and both gross energy consumption and the flux density of that energy consumption. This "hydrothermodynamic" method of analysis comprises the first scientific evaluation of the economy as a physical system, including a competent method of national accounting to replace the discredited GNP approach.

The current analysis employs a simplified version of the LaRouche-Riemann model, treating the two output parameters noted above. The results are displayed in three groups of computer-generated graphs:

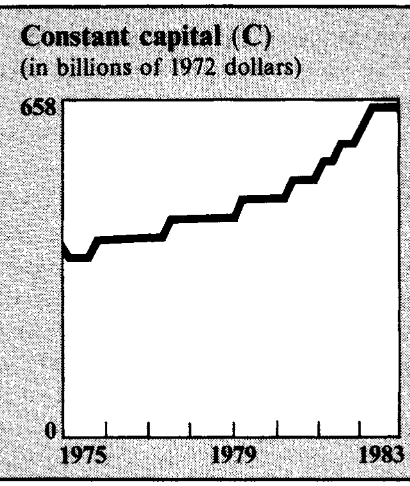
(1) A display of revised national income statistics in constant 1972 dollars through Dec. 31, 1979, showing the replacement cost of labor (Variable Capital, or V); the replacement costs of capital (Constant Capital, or C); gross tangible surplus above replacement costs, or S; and the portion of surplus available for reinvestment, or S′.

(2) A projection through 1983 showing the effects of a tax program designed to increase the proportion of the tangible surplus (S) available for reinvestment (S′), or an increase in the net free energy of the system.

(3) A projection through 1983 under the same conditions, but assuming a more modest growth rate of productivity through the same period.



2. Economic performance, 1975-1983, projecting a 5 percent average annual growth in productivity



The graphic display of the 1970-1979 measures of the tangible economy make the present economic problem immediately apparent. They show that the post-1975 period of economic recovery, shown in the rise in gross tangible surplus, was in no sense a recovery in terms of surplus realized in new investments. Virtually all the surplus was consumed in additional overhead. The Riemann model's data base counts as overhead the consumption of non-goods-producing employees, defense, environmental, and other forms of nonproductive investment, and depreciation of fixed capital (measured by capital consumption allowances).

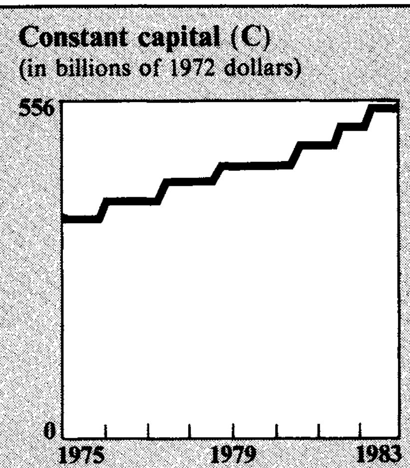
As noted in the earlier studies in this series, S′, or investible surplus, passes below the zero level at the end of 1979, and subsequently continues below the zero level, judging from the available data for January and February. This defines a condition of general instability characterized either by hyperinflation or by unmanageable bankruptcy of large sections of the financial structure. Negative free energy means that the economy, to continue, must cannibalize its existing capital and labor base. The classic model for this predicament is the 1936-1939 German economy.

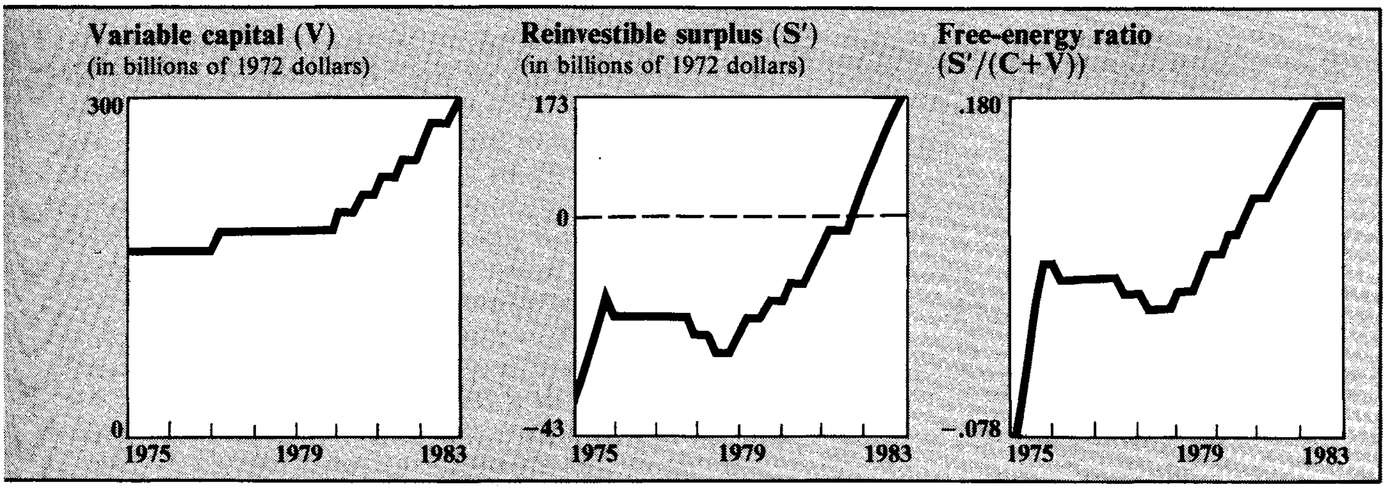
Therefore, in strictly physical terms, the economy, if it is to grow, must apply a greater portion of its surplus above payments to labor and productive capital maintenance to reinvestment, and less to overhead. It must do so at higher productivity levels. No other criteria for fiscal policy is admissable from the facts presented in the first four graphic displays in this series.

The second and third group of graphs, showing projections through year 1983, indicate what a tax policy must aim toward. Two scenarios are shown, including low and moderate assumptions concerning labor productivity. Both assume a substantial transfer from overhead types of employment to goods-producing employment. The scenarios assume reallocation of slightly less than $30 billion in tangible product from overhead categories (in constant 1972 dollars) to variable and constant capital improvement.

We estimated that the post-1973 growth in wholesale and retail trade, finance, insurance, real estate, and services (other than health, education, social and repair services) could be cut back and reassigned to goods-producing categories of employment, returning the

3. Economic performance, 1975-1983, projecting a 2 percent average annual growth in productivity





economy to the labor composition of the beginning of the decade. Under these sets of assumptions, the volume of reinvestible surplus would be substantially increased.

The productivity assumptions employed are extremely conservative. The LaRouche-Riemann model employs entirely different measures of labor productivity than the Bureau of Labor Statistics publishes. Instead of output per manhour, the model uses the ratio S/V, or the amount of surplus generated by a certain input of labor. The benefits of this measure of "global productivity" are immediately evident.

The BLS approach would count into productivity, for example, a new method of digging holes in the ground and filling them up again that resulted in more holes dug and filled per manhour.

EIR's measure of productivity changes much more rapidly than the conventional one. For example, in 1975-1976, a 25 percent rise in this productivity measure took place merely due to rehiring of laid-off workers and restarting of production. The more optimistic of the two scenarios published here does not return the economy to 1976 productivity levels until 1983.

The result of these projections is shown in the following table:

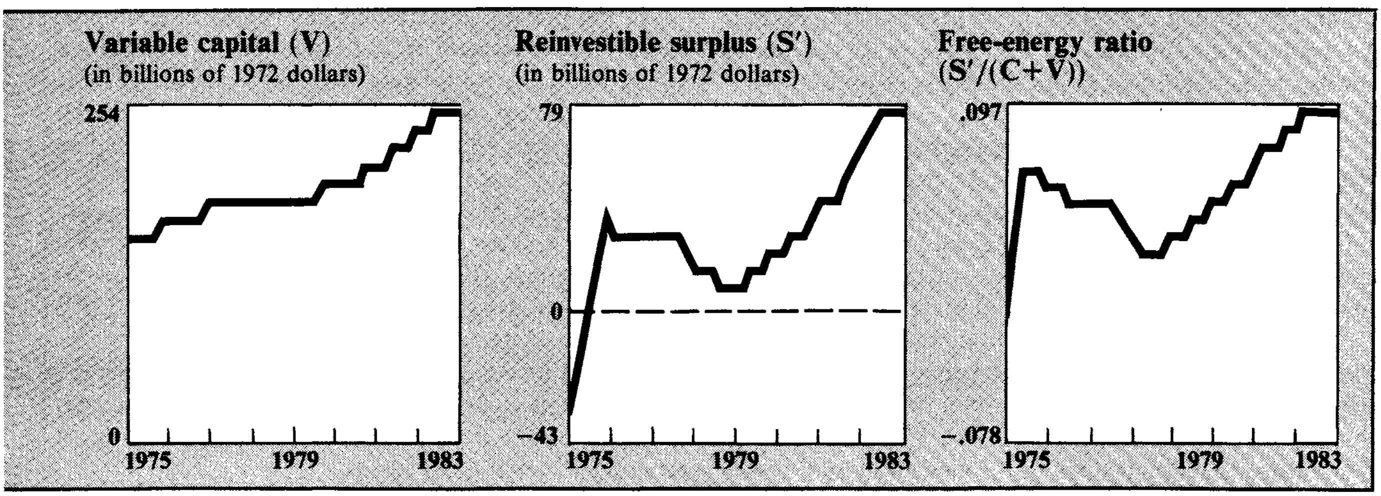
1983, Percent growth over 1979

	Optimistic*	Conservative**
S	48.1	23.1
C	31.2	18.0
V	36.9	23.3

* 15 percent rise in productivity over four years;
** 8 percent rise in productivity over four years.

To summarize, a change in the investment allocation of tangible output as of year-end 1979 is capable of producing growth rates of 7 percent in terms of real, tangible output by 1983.

The question remains: what sort of fiscal policies would tend to promote this shift in investment policy?



The supply side of the tax-cut debate

On Feb. 28, the Joint Economic Committee of the U.S. Congress issued its Annual Report wherein it proposed a change in national tax policy based on data supplied by a "supply-side" model of economics developed by Otto Eckstein of Data Resources, Inc. Proponents of this model advocate tax cuts as a means to stimulate investment. The JEC Report explains:

"We are convinced that we need to consider a modest tax cut on the order of $25 billion to take effect no later than the summer of 1981, even though there is considerable uncertainty surrounding the economic outlook.

"The tax cut we propose here is not the conventional kind which mostly benefits consumers. On the contrary, at least half of the tax reduction should be targeted to enhance productivity through savings and investment with the remainder going to help relieve taxpayers of the pressure of increased taxes and higher energy costs.

"It is important to recognize why a conventional tax cut is not in order. We do not need another boom in consumer spending. Savings and investment must command a larger percentage of our GNP or we will fail to reverse our dismal productivity performance with the result that we will make little headway in our efforts to slow inflation and raise real incomes. Moreover, it is important that whatever tax relief is given to the business community, it be given on the basis of expanding plant and equipment expenditures. We leave it to the tax-writing committees to work out the precise details of the tax cut proposed here."

The model employed by econometrician Otto Eckstein on behalf of the JEC "assumes that we raise the investment tax credit by 2.7 percentage points beginning in 1980; finally, it assumes that we hold monetary and fiscal policies neutral so that the demand rate of inflation is zero on average over the decade of the 1980s.

"By comparison with the outcomes that would emerge in the absence of these tax policy changes," the Eckstein study concludes, "real business fixed investment would be up 5.7 percent by 1981 and 15.5 percent by 1990, raising the capital stock by 3.5 percent by 1985 and 7.2 percent by 1990. The increased stock of capital would raise potential GNP by 1.1 percent by 1985 (0.2 percent annually in the first half of the decade). The improved capital to labor ratio would add 1.2 percent to the level of productivity by 1985 (0.5 peecent annually). It would raise real wages by 0.9 percent by 1985 and would help to produce a 0.7 percent increase in real consumption. It would help reduce the core inflation rate by 1.3 percent by the end of the decade."

There are two principal problems with this approach.

First, the content of the GNP increases are not stated in the Eckstein study. However, they are stated explicitly by the JEC in accompanying recommendations. Recommendation No. 26 of the report states: "An energy productivity index should be developed to measure progress toward improved national energy utilization. Separate energy productivity indices should be developed for each of the major U.S. industries, for each consuming sector, and for the economy as a whole." These indices "would facilitate establishment of national energy conservation goals."

The report hails the drop in energy consumption per GNP constant dollar, which fell by 4 percent between 1978 and 1979, noting "our real GNP has risen almost 20 percent since 1975, while energy consumption has grown by only 11 percent." It concludes, "Further increases in energy efficiency can occur in ways that do not jeapordize economic growth."

This is devastatingly wrong, as our earlier study, "Energy and Inflation," showed exhaustively. Diversion of investment resources to "energy efficiency" is the principal reason for the drop of the free-energy index (S′) to below the zero margin at end-1979. The implied policy mix of the JEC package is tax incentives for investment in an environment of extreme pressure to conserve energy in industrial processes.

Flaws in the policy

In the prevailing economic environment, additional leeway for investment would tend—due to current administration energy policy—to move into what is strictly an overhead cost to the economy. Factoring out investment in various forms of energy investment, including replacement of auto assembly lines to make fuel-efficient cars, purchases of more fuel-efficient aircraft, coal conversion by utilities, and so forth, little is left of total business capital formation by military-related investments and pollution abatement equipment—as *EIR*'s previous study documented.

Under this policy environment, the JEC recommendations, modest as they are relative to the economy, exacerbating the most counter-productive trends in the economy through fiscal means.

GOP tax policy

Reagan's advisors in debate on the issue

by Lyndon H. LaRouche, Jr., Contributing Editor

The *Wall Street Journal* on March 27 featured a front-page lead item, reporting the seething policy-debate among the leading economic-policy advisors of Republican front-running presidential candidate Ronald Reagan. The article, by-lined Albert R. Hunt, contrasts the expansionist economic thinking of Reaganite tax-cutter, Congressman Jack Kemp (R-N.Y.), with the pro-Milton Friedman group of Governor Reagan's advisors.

Rep. Kemp, coauthor of the tax-cutting "Kemp-Roth Bill," is associated with former *Wall Street Journal* figure Jude Wanniski, now an influential gad-fly as political consultant on economic-policy issues. Closely associated with Wanniski and Kemp is a rising, maverick celebrity among economic advisors preferred by conservatives, Arthur Laffer, reputedly the "theoretician" behind the bill.

Earlier, Reagan's campaign rode the popularity of the Kemp-Roth bill. More recently, the new crop of Reagan advisors added officially to the staff on Feb. 26 has been pushing the philosophy of Kemp-Roth toward the background, in favor of Friedmanite packages.

The time has clearly come when all serious discussion of the economic-policy issues facing the nation must include careful analysis of the policy-issues being reviewed within the Reagan camp. If Reagan were to become President, under the control of the same sort of Friedmanite thinking controlling Carter administration practices now, the only important question facing the American voters would be how and where to emigrate.

Comparatively speaking, Kemp, Wanniski, and Laffer have been searching in the right direction. Laffer's "curve" is unscientific, but far more sensible than Friedman's arguments.

Kemp's friends are right when they argue that stimulating the private sector will increase the tax-base. They are right in insisting that the way to bring the federal budget into balance is to increase the tax base by expansion of the private sector. They are also right in arguing that the social service component of the federal budget could be reduced significantly by lowering federal income-tax bites out of the basic incomes of households.

What was said in the Wall Street Journal

Following are excerpts from the Wall Street Journal *of March 27 which reported on the economic debate in Gov. Reagan's camp.*

. . . two views reveal a basic dichotomy in the Reagan inner circle. . . .

The neopopulists (Jack Kemp), while favoring smaller government, want Mr. Reagan to stress tax cuts and economic growth. The more traditional conservatives, while supporting tax cuts to stimulate the private sector, believe the size of government—and of government spending—is the essential issue. . . .

The pressure to emphasize reduction in government is coming from a group of traditionalists; these include former Nixon/Ford administration officials William Simon, George Schultz, and Alan Greenspan, plus Martin Anderson, the campaign's chief domestic-issues expert, and some of Mr. Reagan's long-time political confidants. (The noted economist Milton Friedman, while and independent force, often sides with the traditionalists.)

Essentially, these advisers feel the Californian's 15-year preaching against the evils of big government enjoys unprecedented public support these days, and they see a rare opportunity to cut back the federal establishment. Further they worry that to stress tax cuts and economic growth, rather than shrinkage of government would be both economically dubious and politically perilous. . . .

So far Mr. Reagan has certainly embraced the tax-cutting gospel. He constantly campaigns for a three-year, 30 percent across the board cut in individual income taxes. He argues that this deep tax—ultimately around $90 billion a year—not only would provide enough economic stimulus to increase revenue, but also would curb both inflation and unemployment, obviating a painful choice between those evils.

Mr. Reagan also favors eliminating the $6 billion estate and gift tax, and he would end most taxes on savings interest. For corporations, he espouses more-liberal depreciation write-offs. . . .

A healthy economic policy-discussion could be built around a discussion of the question whether Kemp's proposals are the right means for reaching the sound objectives this group has adopted.

The first fault of the Kemp group's measures is that they address only the smaller part of the problem of inflation—the 2-4 percent inflationary trend of the past decade and a half. Although Kemp did consider supporting the European Monetary System proposals some time past, he and his group have since turned away from all consideration of the problem of double-digit inflation. Without a new, gold-based world monetary system, built around the European Monetary System, there is no practical solution to the problem of double-digit hyperinflation.

Within the setting of U.S. cooperation with France's Giscard and Germany's Schmidt, including remonetization of the U.S. gold reserves, double-digit inflation can be stopped short—leaving us with the problem of ending the single-digit component of overall inflation. It is that latter, second part of the overall problem which situates a competent review of the Kemp group's proposals.

The Kemp group is correct in arguing that tax-cuts—not budget cuts—are the point to be emphasized. A combination of tax-incentives promoting private, job-creating investment in agriculture, manufacturing, mining, construction and transportation is a major part of the proper package. Substantial cuts in the below-$25,000 income-level portion of household income is the remainder of the basic package required.

The problem with the Kemp package is that it does not shape the combination of increased and decreased tax-rates competently. We must raise the rates on the general progressive income-tax schedule, including taxation of ordinary capital gains—to penalize speculation and wasteful forms of investment and spending of incomes. We must, at the same time, sharply cut federal taxes on basic household incomes, while qualitatively increasing the amortization, depreciation and tax-credit stimulants to farmers, manufacturers, construction firms, mining, and transportation, and also provide credit for these tax-deductions to individual household incomes invested in or lent to capital-intensive, job-creating expansion of productive capital stocks and related forms of improvements.

Provided such a tax package is tied to the promotion of high-technology exports, in cooperation with Japan and the Europeans, the U.S. economy can be turned around rapidly. Under that combination of circumstances, bringing "hard commodity" lending back to the 4-6 percent prime rates, we can achieve rapid growth in the economy and the tax base—the Kemp objectives.

This is what the shape of the national economic-policy discussion ought to become. The *Wall Street Journal* has missed the vital points.

The LaRouche alternative

The Emergency

1. *Whereas*, both the federal government and national economy of the United States stand in imminent fiscal and monetary jeopardy, be the following emergency measures of tax reform enacted as an integral part of the several measures required to remedy this state of affairs.

2. *The purpose of this act* is to channel savings of individuals and households, as well as retained earnings of partnerships, corporations, and other business enterprises into that sort of capital-intensive investment in production of useful, tangible commodities which will increase the income tax base of the nation, raise the level of productivity in our economy, and give substance to the presently imperiled currency of our nation.

3. *This purpose* is to be served by shifting the weight of taxation from basic income of households and from earnings of employers producing tangible commodities to those portions of income otherwise employed.

4. The category of tax-accounting heretofore known as "capital gains" is herewith discontinued, except as otherwise provided within the body of this act, shall now be treated as part of ordinary income.

5. *Reforms of the Federal Income Tax Schedules*

A. Excepting incomes of households earning a gross income of less than $20,000 in a tax year, there shall be a 50 percent increase in the taxation derived by the federal income tax from such households, partnerships and corporations, except as hereinafter specified.

B. The per capita exemption from taxation for the income of households for the current tax year shall be increased to $2,500 per person, to $3,750 per deductible person for the next tax year, and to $5,000 per deductible person for the next year following that. There shall be an additional $1,000 deduction for each dependent currently matriculating in study of the physical sciences, biology, medicine, engineering, agronomy, or teacher training at an institution of higher learning during the tax year.

C. The per capita exemption shall be doubled for each member of a household who is legally blind, disabled, or over 65 years of age. Persons suffering a partial disability shall qualify for a quarter, half, or three-quarter credit during the period of such disability.

D. There shall be a substantial increase in amortization and depreciation and depletion allowances for capital improvements in agriculture, manufacturing, construction, mining, forestry, and public transport of passengers and freight.

E. Allowed depreciation, amortization, and depletion shall be predicated upon adjustments for current replacement costs, such that the total amount allowed over the full term of such deductions shall be equal to the replacement cost at the point of asset liquidation.

F. The tax deduction credits earned by individually owned, partnership-owned, and corporate farms and businesses shall be extended to individuals and households investing in the equity earning such depreciation, amortization, and depletion, and shall be extended as a proportional share of the tax-credit earned by the business entity making the relevant investment.

Explanation: If a household uses part of its income gained during a tax year as a primary investment in a business, transferring such sums as investment during the same tax year that portion of income was earned, or transfers an equivalent portion of past-accumulated savings, that household shall share a proportionate part of the whole investment's depreciation, amortization, and depletion earned as a deduction for that year and over the subsequent life of such a primary investment. There is no benefit accrued from purchase of equities in secondary markets.

G. Subject to rules and restrictions hereinafter stipulated in this *Act,* the Executive Branch of the federal government shall establish annually for this current year and each year thereafter a list of categories of research and development for which individuals, partnerships, and corporations shall be entitled to a direct credit against federal income taxes due.

The rules governing such deductions are as follows:

G.1. To qualify for such credits, the beneficiary of the credit must be an established farm or business firm using gross profits from sale of commodities other than the product of such research and development as a source of funds applied to the item of research and development being considered. Only that portion of the gross profit of the business or farm shall be qualified for investment tax credit.

G.2. The governing philosophy for establishing categories of such investment tax credits is a determination that private farming and business interests are engaged in a currently not-net-profitable form of research and development which is in the national interest and which some federal agency would be obliged to undertake if private initiative did not.

G.3. Tax credits for this shall be apportioned to investors in the same manner as for depreciation, amortization, and depletion.

H. The Department of Commerce shall specify for the current fiscal year and for each subsequent fiscal year in a like manner a list of high-technology exports of tangible capital goods, agricultural commodities, and engineering services for which the producer of those goods or services shall receive a tax credit.

H.1. This shall include high energy-flux-density energy systems, including high-head hydroelectric and water-control projects, high-technology agricultural improvements, high-technology industrial capital goods and related engineering services.

I. Foundations and related tax-exempt institutions shall be taxed for all income earned in excess of $10,000,000 in any tax year, except as herein specified. Exceptions shall include income directly used for religious and educational uses or wholly used for research in the physical, biological, and medical sciences, or directly employed for the development and delivery of medical and dental services, or used for payments of contracted pensions either as payments to pensioners according to contracted or adjusted schedules, or paid into sinking funds to aggregate amounts not exceeding those warranted by implicit pension obligations.

Except that gifts shall be treated as under standards and practices established immediately prior to the passage of this *Act.*

6. *"Productive" Defined*

For the purposes of this *Act,* the term "productive" is defined in a manner consistent with the 1791 *Report to Congress on the Subject of Manufactures* by Treasury Secretary Alexander Hamilton.

"Productive" means the promotion of scientific and technological progress, and the mediation of the implicit benefits of such progress into rises in the realized productive output of labor through capital-intensive investments in the production of tangible wealth.

However, there are two mediating steps in the process leading to improvements in output of tangible, useful goods which are not productive in and of themselves, but which are indispensable for providing the potential for rises in national productivity. These are the promotion of scientific and technological progress as such, and those processes of public and higher education through which the potential productivity of the labor force is enhanced. Essential services, such as medical services, which enhance the health and longevity of a skilled labor force are also forms of nonproductive services which are indispensable to the quality of the households from which the labor force is recruited.

7. *National Goals*

At the close of World War II, over 60 percent of the national labor force was employed as productive operatives either in agriculture, or manufacturing, or construction, or mining, or transportation. During 1979, the percentile of the labor force so employed was in the order of 38 percent or worse.

Although public and private administration and services are intrinsically necessary to firms and government, they represent at best nonproductive "overhead" burden, paid for from the gross profits earned by the national economy and individual firms through production and sale of tangible useful product. Although increases in the ratio of capital to labor in direct production requires an increase in services and administration, especially the ratio of scientists and engineers combined per 10,000 productive operatives employed, the postwar growth of administration and services far exceeds the growth of aggregate gross profit earned by the national economy through production and sale of useful tangible product. It should be our national goal to increase the ratio of the total productive labor force employed in high-technology positions as productive operatives to about 50 percent over the immediate years ahead. The loss of national productivity caused by excessive growth in the ratio of administration and services is aggravated by combined under-investment and obsolescence in high-technology forms of agriculture, manufacturing, construction, mining, and transportation. Productivity is best measured as an increase in the ratio of energy employed per productive operative over and above muscle-power. This connection is mediated through the capital equipment provided for the productive employment of operatives, and correlates with a required increase in the energy-flux-density of energy production for household, agricultural, industrial, and other basic usages.

Therefore, it is the intent of the Congress, as attested by this *Act,* that the implementation of this *Act* and other statutes by the Executive Branch of the federal government shall be directed to effect the following trends in the evolution of our national economy.

A. The use of the power of taxation of the federal government to foster the flow of household and business savings into capital-intensive productive capital investment in agriculture, manufacturing, construction, mining, and transportation, aiding this by a combination of tax incentives for such purposes, and by increasing the penalties for income exceeding basic household-consumption requirements disbursed in some other fashion.

B. To shift the ratio of the total labor force employed as productive operatives toward 50 percent.

C. To increase the rate of scientific and technological progress through emphasis on G.1. Basic research and development in the physical sciences, the biological sciences, in medicine, and in the emphasis on related knowledge and skills in public and higher education.

D. To foster capital-intensity in investment in employment of productive operatives.

E. To promote those forms of energy production which represent energy-flux densities equal to or in excess of those presently used for production of electrical energy by public utilities, with emphasis on the development of magnetohydrodynamic production of electrical energy from energy sources and the promotion of advancements and applications of nuclear energy technologies.

F. To promote the United States' development as an exporter of high-technology capital goods and related engineering services for the present and the future.

8. *Medium-term Balancing of the Federal Budget*

Provided that the United States enters into agreements with its allies of the European Monetary System, and others, to establish a new, gold-based monetary system which reorganizes the dollar-obligations, sometimes termed "Eurodollars," held outside the territorial United States, and that the United States values its gold reserves, the largest of any nation in the world, at prices for monetary gold agreed upon in concert with those allies, the United States can sustain the temporary imbalances in the Federal Budget that this *Act* will probably incur without perpetuating the double-digit inflation the dollar has suffered during the recent period.

Over approximately a two-year period, the combined effect of the measures stipulated by this *Act* and our nation's participation in creating an efficient form of new, gold-based world monetary system will be to expand the taxable income of the United States and to render certain present categories of federal direct and indirect social expenditures of welfare obsolete and unnecessary. The "tax dividends" generated in that way will serve to bring our Federal Budget into balance over such a period, aided by the role of the new monetary system and federal Executive action to bring prime rates back into the 4 percent to 6 percent range indispensable for sustained economic growth and prosperity.

Engelhard traps the Hunts

When the silver market collapsed, the Hunt brothers were caught holding the bag, and certain British interests came away with Hunt properties.

Engelhard Minerals and Chemicals Corporation, a highly secretive, multi-billion dollar commodities trading company, emerged last week as the prime beneficiary in the demise of the Hunt brothers' silver empire. According to newspaper accounts, the Hunts agreed last fall to buy 19 million ounces of silver from Engelhard in the future at $35 an ounce. When the contract came due on March 31, silver closed at only $14.20 and the Hunts might have taken a $400 million loss. Instead, Engelhard negotiated a new agreement which resulted in the Hunts turning over major Canadian oil and gas holdings to Engelhard as well as 8.5 million ounces of physical silver.

What is Engelhard Minerals and how did it secure such an armlock on the unwary Hunts? Although scarcely a household word, Engelhard ranks thirteenth among Fortune 500 corporations, boasting 1979 revenues of $18 billion. More important, Engelhard is closely tied to elite British financial and intelligence circles through its relationship to the Lazard Freres investment bank. Philipp Brothers, an Engelhard subsidiary, is reputedly the world's largest crude oil trader. According to oil market sources, Philipp Brothers, along with British Petroleum and Royal Dutch Shell, played a major role in the speculative manipulation of the Rotterdam spot market last year, resulting in crude oil prices of over $40 a barrel.

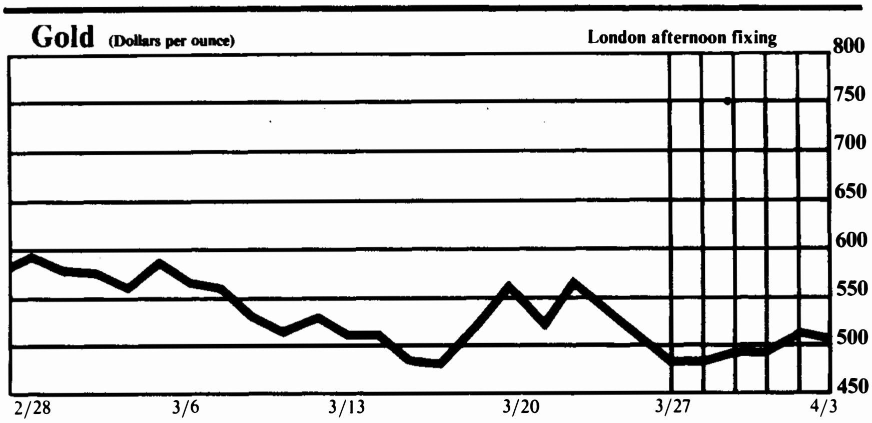
In an April 1 editorial, the *Wall Street Journal* dropped a strong hint that the Hunt brothers, sons of the late Texas oil billionaire H.L. Hunt, had not merely fallen because of miscalculations in the silver market but had been pushed: "Mr. Hunt ... tried to corner the silver market. And since the people who run markets have always felt that cornering gives markets a bad name and thus threatens the incomes of people who make their lives running markets, they sprung a trap on Mr. Hunt."

The *Wall Street Journal* is, of course, too polite to mention Engelhard by name, but the implication is there. Of course, as the Rotterdam market demonstrates all too well, Engelhard and associates are themselves no strangers to anti-social behavior.

In carving out a chunk of the Hunts' oil and silver holdings, Engelhard has further extended the British oligarchy's "hard commodity" fall-back position in the event that the U.S. Federal Reserve's credit crunch brings down the Eurodollar market. Ironically, Engelhard's little experiment in "lifeboat economics" came very close itself to triggering a full-blown financial crisis.

Bache Halsey Stuart Shields, the fifth largest U.S. brokerage firm veered close to bankruptcy, disclosing trading losses as high as $50 million. Bache is 6.5 percent owned by the Hunts and had conducted large-scale silver trades on their behalf. According to the Securities and Exchange Commission, at least seven U.S. brokers experienced "some degree of exposure (to the silver price collapse—A.R.) and, in some instances, losses."

British commodity traders, such as Rudolf Wolff, who did a booming business in silver up until late January are also likely to have felt the pinch. Market sources report that on March 28 the Bank of England intervened to prop up the London silver market, permitting prices to stabilize at around $14 an ounce (up from the March 27 low of $10.80.) The Bank of England reportedly acted on the urgent request of the U.S. Fed.



Foreign Exchange by Richard Katz

Will the dollar bust?

The interest rate spread has kept the dollar high, but a certain investor "safety factor" ensures that it will go down again, and awfully fast.

Both American and European analysts believed that this past week might have been the peak of the dollar's spectacular rise against European currencies. On April 1, the dollar touched Dm 2.00 in late New York trading, and had fallen back to Dm 1.96 in Frankfurt trading' April 3. A certain stability remains behind the dollar's strength for reasons of simple arithmetic: there is now a stupendous 10 percent spread between the Eurodollar and Euro-deutschemark interest rates. A speculator holding dollars assets and mark liabilities for, say, six months, will still make money even if the dollar falls to DM 1.75 over the entire period. The extra interest is great enough to displace even a fairly sharp loss in the dollar's foreign exchange value.

However, there is more to the dollar's weakness than simple interest rate differentials, especially in the opening phase of a full-scale financial crisis on the American markets. To put the problem inversely: the fact that West Germany has not had to raise interest rates while the interest differential between the mark and dollar rose 4 points indicates that the West Germans believe the dollar rise is a short-term phenomenon. They have not attempted to prevent the dollar rising on what are essentially thin European markets. Virtually all intervention has taken place to stabilize the relative parities of EMS currencies against each other.

One top West German banker predicts"at the first bad news from the American financial markets, all the short-term funds will flow out, and there will be a terrible crash in the New York market." The dollar's situation is as fundamentally unstable as the British pound's was two years ago, when the Bank of England had to support it with similar interest rate differentials. The Europeans must liquidate their dollar positions at a certain point precisely because the Federal Reserve has such grave reasons to maintain their dollar positions! In other words, the safety factor, however marginal, must outweigh the interest rate differential at a short period of time. When this threshold is crossed, "the dollar will go down awfully fast," predicts a leading New York bank economist.

This makes timing an entirely unpredictable factor. Added to the requirement of safety is the political consideration that Europe would, in effect, be severing a large part of its financial links to the United States by taking responsibility for worsening an already grave financial situation on the other side of the Atlantic. Some New York bank economists are already speaking in low tones of a "Crash of '79" style pullout by Europe, citing the heavy dependence of the American market on foreign funds. The Europeans are, therefore, waiting for the "first bad news," i.e. the beginning of the actual crisis due to "internal factors" in the United States, so that there will be no imputation that Europe is responsible for New York's problems, one European banker believes.

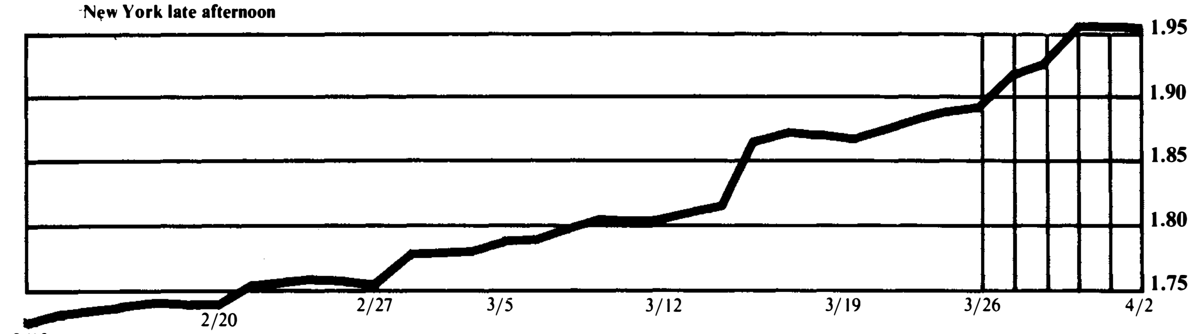
The importance of the safety factor came out strongly in American markets this week in the sudden widening—by more than $1\frac{1}{2}$ percent—of the spread between Treasury bills and similar-maturity bank IOUs. Bills generally bear lower interest because they are guaranteed by the Federal government as much as green backs are, and represent a place of refuge in the worst market conditions. If American investors place this type of question mark over the certificates of deposit of large commercial banks, European suspicions are an order of magnitude higher.

For the moment, Eurodollar dealers are still buying into long-term dollar paper on the grounds that the underlying interest rate factor will maintain the dollar's strength for the immediate future, and foreign exchange dealers have not discovered any significant movement into short positions against the dollar. Various Washington oracles are assuring the Europeans that American interest rates will remain high even if the economy fails, in order to maintain the dollar's stability.

No conventional formulas should be applied to this market. The dollar financial structure is moving into a basic crisis—in fact, is being pushed into one by the Federal Reserve—and past rules will not apply.

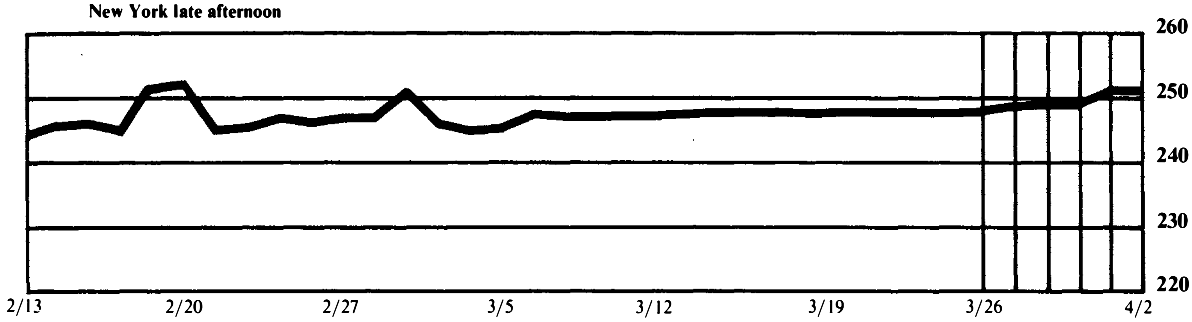
The dollar in deutschmarks

New York late afternoon



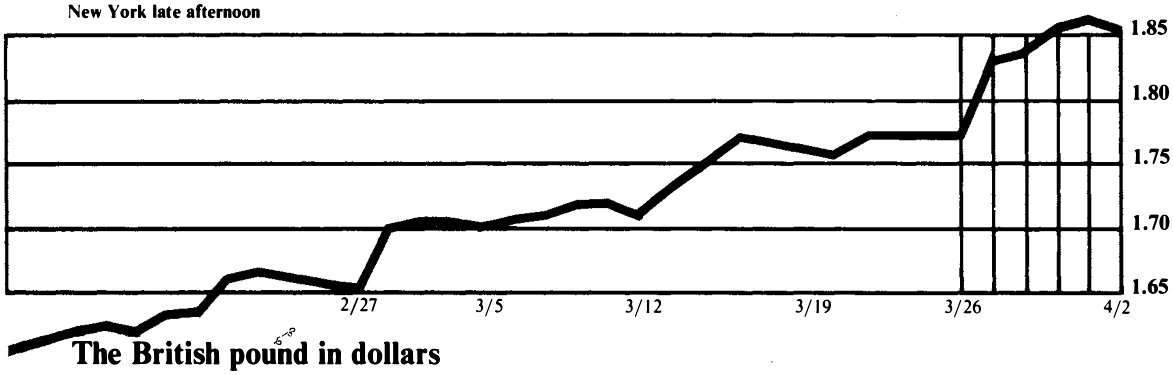
The dollar in yen

New York late afternoon



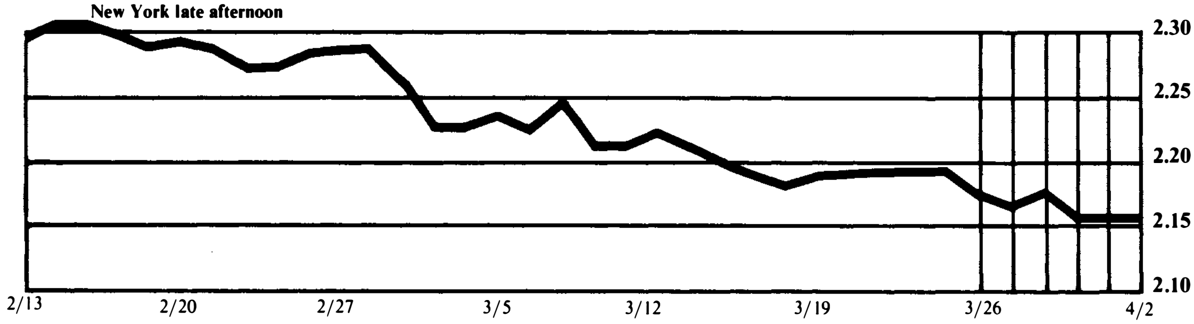
The dollar in Swiss francs

New York late afternoon



The British pound in dollars

New York late afternoon



Agriculture by Susan B. Cohen

The farmers denounce the embargo

They waited and waited for Carter to honor his promises, but finally the farmers got fed up.

On Friday, March 28, the American Farm Bureau Federation formally withdrew its support for the Carter Administration's embargo of more than 17 million tons of wheat and feed grains shipments to the Soviet Union. In repudiating the embargo, the Farm Bureau—representing more than three million farm families—charged that the grain trade cut-off was "ineffective and damaging both to American agriculture and to the nation's economy."

The Bureau's reversal is powerful testimony both to the extremely serious economic conditions developing in the farm sector and to the growing popular rejection of the Carter Administration's economic policy. Bureau president Robert Delano pointed to the fact that Agriculture Secretary Bergland had promised the farmers that they would not incur losses as a result of the embargo. "We have waited for three months," Delano said. "It is past the best time to act in keeping this promise."

The embargo was summarily imposed on January 4. A reluctant farm population was herded into line behind the otherwise explicitly unconstitutional "food weapon" on the grounds that Soviet activity in Afghanistan constituted a "threat to national security."

Now, three months later, the Carter Administration's promises of protection are shown to be as hollow as its original campaign promises "never" to use the food weapon. Worse, the Administration is engaged in a systematic effort to lie and cover-up the actual situation now faced by producers.

Corn producers have gotten the brunt of it. Not only did they produce a record-breaking bumper crop of corn in 1979—fully 7.76 billion bushels—but of the upwards of 20 million tons of grain embargoed to the Soviet Union, fully 14 million tons was corn. Most of this grain is backed up on the farms and at the local elevators throughout the corn belt, parts of which—for instance, Minnesota, Iowa and North Dakota—have been saddled with transportation snarls. This has put tremendous pressure on prices at the local level. This is the hub of the Carter Administration's lie that prices have recovered to pre-embargo levels.

Under the tight credit conditions imposed since October, producers may be forced to sell at huge losses just to gather necessary cash for the next planting. The paid government land diversion program, a potential source of cash in the first quarter for producers, was canned by the Carter Administration for purposes of austerity. Further, since most of the corn producers did not participate in the 1979 set-aside program, they have not been eligible to take advantage of the government's loan crop support program.

Lifting of these requirements, as is anticipated, however, is not taken seriously by producers: like the Administration's vaunted program to purchase stockpiled grain through the Commodity Credit Corporation (CCC), only a limited amount of grain will be absorbed. The Administration has advertised that it does not want to take possession of any corn, since it would have to hold it at government expense until the price level topped $3.15 per bushel on the open market, and that would interfere unduly with the budget austerity program.

Most recently, according to the *Journal of Commerce*, several firms hit by the embargo, including a division of Englehard Minerals, have been observed trying to buy Argentine corn for sale to the Soviet Union. Meanwhile, one of the grain trading firms affected by the embargo, Goodpasture, Inc. of Houston, announced this week that it is closing its grain trading business as a result. The CCC, Goodpasture explained, was rolling over contracts calling for spring delivery until August or as late as October. Since the firms aren't paid until the grain is loaded for export to destinations other than the USSR, this creates a financial strain that is impossible for smaller companies to bear.

Even counting a net 3 million ton increase in corn exports for 1979-80, attributable to the fortuitous development of a drought in Argentina, American corn producers will be stuck with a 45 percent rise in stockpiles this year over last—a needless and costly burden on the agricultural sector and the American economy as a whole.

The crunch is on

With rates on the Euromarket soaring, the question of who goes bankrupt and who doesn't will be determined by who gets control of the Federal Funds market.

Short-term interest rates went through the ceiling on the Eurodollar market March 31: $20\frac{5}{8}$ to $20\frac{1}{2}$ percent for one month deposits; 20 to $19\frac{7}{8}$ percent for three months; and $19\frac{3}{4}$ to $19\frac{5}{8}$ percent for six months. March 31 tax payments and other end-of-the-quarter factors may have put added steam under the Eurodollar rates. However, the primary reason is a scramble for short-term funds by banks who are cash short in the face of the Federal Reserve's new reserve requirements.

In the current bank reporting week which ends April 11, the new marginal reserve requirements unveiled by the Federal Reserve March 14 go into effect for both Federal Reserve members *and nonmember banks.* This prong of the Fed's program is designed to jack up the banks' cost of funds, thereby "encouraging" them to cut back on loan expansion.

The Fed's authority to impose reserve requirements on nonmember banks stems from the Credit Control Act of 1969. The Depository Institutions Deregulation and Monetary Control Act of 1980, signed into law by President Carter March 31, subjects nonmember financial institutions to reserve requirements as a matter of course, and allows the Fed to raise those reserve requirements as high as it deems fit.It is an open secret that many of the nation's smaller financial institutions will not survive the squeeze.

According to Jeffry Nichols of Argus Research, the area where the Fed's credit crunch will strike the hardest is bank borrowings from the Eurodollar market (a category known as "managed liabilities"). The Eurodollar market has been a major source of additional liquidity for the U.S. economy over the last year. As of the current bank reporting week, all supplementary borrowings over a base period by the money center banks to fund outstanding long-term loans or make new loans will be subject to a heavy penalty of 10 percent reserve requirements.

A significant portion of the banking system's demand for short-term funds has already been deflected to the Federal funds market, the overnight interbank market, where major banks are reportedly borrowing between $4 and $5 billion per day. Since Fed funds purchased from other major banks are exempt from the new margin requirements, they are a cheaper source of funds than certificates of deposit (CDs) which are subject to the reserve requirements.

Who gets Fed funds at what price thus becomes the critical question. Charles Lott of Keefe, Bruyette, the bank stock firm, said in an interview that he is worried about the thrift institutions but not the large commercial banks. "The big banks can help each other out. They have Federal funds which they can pass around to help each other out. They will give these funds to the banks that they think worthwhile to keep out of trouble." Who ever controls the Federal funds market will determine who gets bailed out.

Despite some initial squeals from leading money center bankers, it has become quite clear that they welcomed and encouraged the March 14 measures. In a recent interview, Bankers trust economist Donald Wooley commented that with the cost of funds skyrocketing, all of the major banks wanted to retrench on their loan portfolios. The only thing stopping them was the concern that if they went it alone, they might jeopardize their market share and lose out on future business. "There was some measure of satisfaction with the Fed measures," he said, "because it imposed discipline on everyone to retrench together."

Many of the nation's smaller banks have no choice but to retrench fast. Smaller retail-oriented banks are particularly impacted by the new requirement to place 15 percent reserves in interest free deposits with the Fed on loans made above the base period. "Our strategy is to make sure there is no increase in our loan portfolio to avoid the penalty, " stated the banker at one small New York state bank. As a result, all but the most "credit-worthy" customers face an imminent credit cutoff.

Business Briefs

International Credit

British budget hailed as model for U.S.

British Prime Minister Margaret Thatcher's new budget was hailed by the *Washington Post* in a March 7 editorial as a possible model for the United States. Thatcher's budget calls for steep cuts in public spending, which is scheduled to drop 4 percent in real terms by 1983-84. The Thatcher regime has pledged itself to stick to this target despite Treasury minister Geoffrey Howe's admission that real GNP could decline by as much as 2½ percent.

"Mrs. Thatcher is now completing the first year of a great experiment that is a calculated and abrupt break with four decades of British political tradition," wrote the *Post*, under the headline "Mrs. Thatcher's Experiment." "It's too early to know whether the experiment will succeed. But if it does, there will be rising pressure to repeat it in the United States."

The Thatcher cuts are concentrated largely in housing, education, industrial subsidies and manpower training, with spending on defense and police the only items to show a significant rise. Taxes have also been hiked in such a way that they will fall heaviest on working class families.

Meanwhile, British newspapers have greeted last week's steel strike settlement as a vindication of Thatcher' austerity policy. An April 2 London *Times* editorial stated that, "The outcome of steel strike is the most significant success that the Government has had in the domestic field since it took office...The government's economic strategy depends on changing people's expectations. The experience of its first year has shown how deeply ingrained these can be, and how slowly the assumption fades that everyone has a right to pay increases at least parallel to the rise in the cost of living."

The strike against the publicly-owned British Steel Corporation was the longest strike in Britain's post war history and netted the workers a pay increase of 16 percent despite an 18 percent inflation rate.

Corporate Strategy

Will Chrysler be sunk after all?

On Monday, March 31, the Chrysler Corporation was to appear before the Senate Banking Committee in Washington to present the details of $1.5 billion in new private financing that would allow it to receive an equal amount in federal loan guarantees to stay in business. On Monday, Chrysler officials reported that they were unable to meet the deadline; they were still talking with their bankers.

Incredibly, a senior Chrysler official said that missing the deadline—a development which renewed questions as to whether Chrysler would or should be bailed out—this week would not be fatal to the company's long-range efforts, noting that Chrysler had missed other crucial target dates for raising money over the past year. Spokesmen for the 300-bank syndicate involved in the negotiations with Chrysler refused comment on the situation. Some observers pointed to the fact that questions had been raised recently about bank enthusiasm when two Chrysler creditors who are not members of the syndicate had sued the automaker for nonpayment of loans. Treasury Assistant Secretary and former Lehman Bros. partner Roger C. Altman added to the doubts raised when he admitted to the Senate Banking Committee that so far the financial institutions have shown no willingness to provide truly fresh loans."

A first-quarter collapse of the corporation was precluded by hasty "interim" patchwork financing in the form of payment deferrals and belt-tightening. Day-to-day operations are being sustained by that and an infusion of cash from Peugeot.

The backdrop to this new round of Chrysler difficulties is the beating the auto industry is taking generally under the Carter-Volcker austerity regime. On Tuesday, Detroit automakers announced that production schedules for the second quarter of the year were being slashed by 21 percent from 1979 levels—the lowest second-quarter output in 15 years. Normally, second quarter production is high, as spring sales boost demand. But tightening retail credit on the one hand, and the impossibly high cost of financing inventories on the other—on top of unusually poor sales—forced producers to retrench.

At Ford, where sales have declined by 24 percent so far this year, 10 percent of the support staff will be laid off and white collar salaries chopped down, spokesmen announced on Tuesday.

Domestic Credit

Credit squeeze hits livestock industry

News that the nation's third largest livestock producer, Monfort of Colorado, was in trouble early this week was confirmed yesterday when Kennety W. Monfort, the son of the founder of the company, announced that he was taking over again as president and chief executive officer "because there was a difference of opinion on the amount of cutback we needed to do to save the company." Monfort, which runs beef packing plants, feedlots and other agricultural activities, lost $6.8 million in its second quarter, ending March 1.

Monfort's bad news was accompanied by bad news from the meatpacking arm of one of the nation's biggest cooperatives, Farmland Industries. Farmland Foods, Inc. announced that it had laid off all 400 workers at its meatpacking plant in Garden City, Kansas because of reduced demand for beef and a dwindling supply of cattle.

Livestock raising and feeding is a typical, highly leveraged business—raising has very long lead times and feeding is an intensive operation with high turnover and low margins. A twenty percent prime rate is poison to this industry, and the effects are beginning to show. Slumping demand for beef in the face of high retail prices and tough competition from plentiful chicken and pork supplies has been sending cattle prices down the limit on commodity markets this week—a development which will kill, once again, any hope that cattle raisers will finally be able to begin rebuilding herds.

Banking

New York may not market $3.1 billion

A $3.1 billion dollar loan to New York scheduled for this week may not occur, falling victim to Paul Volcker's credit crunch. According to sources in the municipal bond market, the decision by Moody's Investor Service to hold off on rating the bonds could force the state to postpone the sale of bonds indefinitely; tight money conditions mean that the state will have to pay 10 to 11 percent for its money when, and if, the bonds reach the market.

New York State markets revenue-anticipation notes every spring, advancing cash payments to localities prior to receiving tax revenues over the course of the April-March fiscal year. If this year's $3.1 billion borrowing falls through, $885 million in payments to school districts fall through also. This includes $235 million for New York City, all due on April 15.

Moody's made the decision on March 31, withholding the state's traditional MIG (Moody's Investment Grade) rating to put maximum pressure on the state legislature to come up with a balanced budget for 1980-81. Earlier in the day the legislature voted up a $14 billion budget, which increased school aid by $3.99 billion for the coming school year and restored cuts made in the State and City University budgets. Governor Carey promptly criticized the budget as unacceptable and demanded $300 million worth of items cut. In the view of some state legislators, Carey's behavior paved the way for Moody's action.

The lack of a rating isn't the only problem New York faces. "The big commercial banks traditionally absorb the bulk of these notes," Phil Cohen of Bear, Stearns, the municipal bond house, noted."However, this year money is very tight, and the banks don't have the cash to throw around. Therefore, we're looking for individuals to pick up the notes." For a $3.1 billion sale, that's a lot of individuals.

Energy

Synthetic fuels to distort economy

The synthetic fuel program got a tremendous push when President Carter signed into law the "windfall profits" tax April 2, which will place about 15 to 20 percent of the total $227 billion in tax revenues over 10 years at the program's disposal. Expenditures for synthetic fuels will be enormous and could distort the economy to the point of sucking off half its productive output into producing small amounts of very expensive fuel.

According to a study released by Resources for the Future, a coal conversion plant that can produce 50,000 barrels of synthetic oil a day will require 5 to 8 million tons of coal a year; cost $1.5 to $3 billion to build, would occupy one square mile of land and employ 4,000 people to work it. But Carter's program is calling for 1.5 million barrels of coal liquids a day to be produced by 1990. Doing the appropriate mathematics, one finds, Carter's coal conversion plan will consumer 270 million tons of coal annually. They will also cost between $50 to $100 billion to build.

Briefly

● **HAMISH McRAE,** economics columnist for the London *Guardian* newspaper has nothing but high praise for the blow-out of the silver market last week which nearly brought down the world's monetary system. McRae writes April 3, "This is destroying money, it's like making a huge bonfire of hundreds of millions of dollars, and as everyone knows, the more money is destroyed this way, the more there is for the rest of us to have."

● **GEORGE SCHULTZE** is attempting to improve his status as advisor to the Reagan campaign on the basis of his alleged personal friendship with West German Chancellor Helmut Schmidt. Privately, however, Schultze himself admits that he opposes Schmidt's special relationship with France's Valery Giscard d'Estaing; he also admits he espouses policies identical to those of Schmidt's chief political opponent, Christian Democratic Union leader Franz Josef Strauss. Recently, Schultze announced that he opposed the use of gold as the basis of the world's monetary system, and is quite opposed, therefore, to the nature and the objectives of the European Monetary System created by Giscard and Schmidt.

● **WILFRIED GUTH,** chairman of West Germany's largest bank, the Deutschebank, warned last week that overly high U.S. interest rates are forcing all countries to tighten credit. A prolonged period of high rates in the U.S. would disrupt the recycling of petrodollars and would require major intervention by official monetary institutions to assist debtor countries, Guth said.

The Trilateral strategy to bring back the 1930s

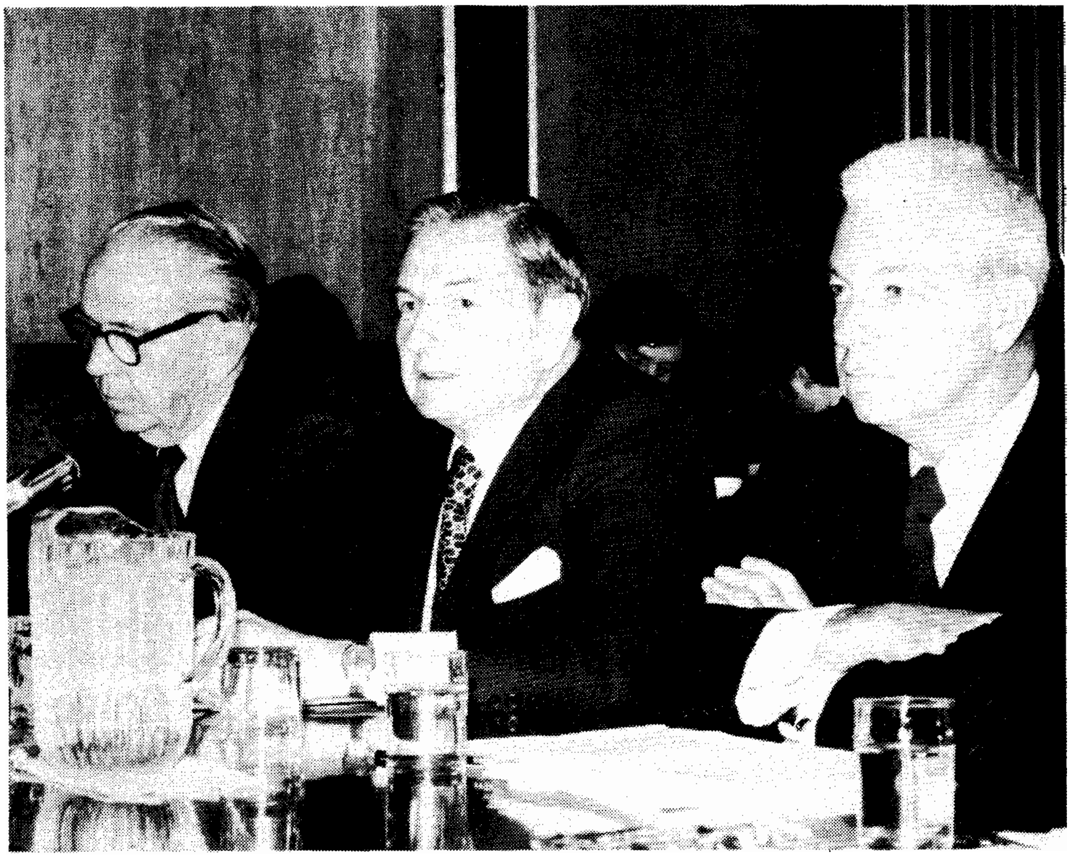
by David Goldman

'Carter's interest rate policy should finally tip the U.S. economy into a real recession, as opposed to a pseudo-recession that never materializes. Then contraction will start to bite. No real recovery is possible until there is a real recession. Then there will be room for fiscal measures to be taken.'

David Rockefeller, Chairman of Chase Manhattan Bank and founder of the Trilateral Commission, made these remarks March 27 following a meeting of the Commission in London. Since echoed throughout the American financial press, Rockefeller's statement announced a policy decision to permit American financial markets to crash. But contrary to the rationalizations for "purgative action," the expected result is not a reduction of the inflation rate, but a top-down reorganization of the American economy along lines resembling 1933-39 Germany.

This much is stated in so many words by House Banking and Currency Committee Chairman Henry Reuss. After President Carter signed into law April 1 the Reuss-sponsored Omnibus Banking Bill of 1980, following Carter's invocation of the Credit Controls Act of 1969, Federal Reserve Chairman Paul Adolph Volcker has more power concentrated in his hands than Hjalmar Schacht ever wielded from his cockpit at the Reichsbank in the 1930s. Federal Reserve officials and congressional staffers who worked closely with Reuss and Volcker to design this steamroller believe, and state frankly, that the result of their actions will be widespread bankruptcy among the financial and corporate sector. These bankruptcies will lead to a general reorganization under control of the Federal Reserve Board and corporatist industry-labor-business panels.

Few in the financial community, or the general population for that matter, expect that the nation's financial structure will avoid a major crisis



Chase Manhattan Bank chairman David Rockefeller flanked by Elmore C. Pattern, chairman of Morgan Guaranty Trust (left), and Edward Palmer, Chairman of Citibank in 1977 Senate hearings on Federal loans to New York City.
Photo: Wide World

in the immediate weeks ahead. But the nation's management is in the hands of a faction that believes that this crisis can be managed with the result detailed exhaustively in this special report.

"Bubbles of all sorts build in any period of virulent inflation," the *Wall Street Journal* wrote in an editorial April 2 that summarizes the apology for the "purgative crisis." "They are finally punctured when authorities finally move toward correction. When the Fed stops printing money, the ensuing credit crunch shakes out the rickety structures that the inflation built. We are already seeing the Hunts taking a bath in silver, Chrysler unable to come up with the loans to qualify for its federal bailout, New York City suffering a transit strike that may be a precursor of its financial problems evolving into real pain. We see institutions in danger, the long-term bond market destroyed and the whole savings and loan industry endangered... The danger is that the pain of correction may become so acute that the Fed will be swayed from its course."

There are two reasons why this perspective is insane.

As Reuss's advisors indicate, this assumes that the administration and the Federal Reserve can drag Western Europe into a crash along with the United States. The current issue of *Business Week*, for example, contains a lead story insisting that the first "victims" of

In this section

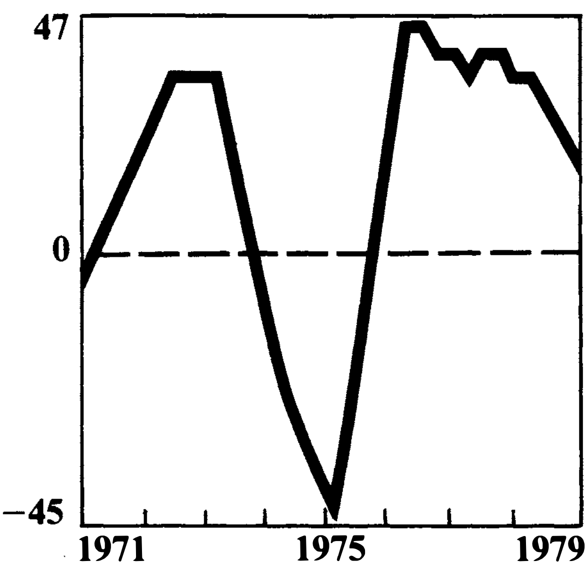
This report was prepared by a team under the direction of Economics Editor David Goldman, including National Editor Konstantin George, Kathy Burdman, and Richard Freeman. It features:

the Federal Reserve's credit-tightening will be Western European and particularly German banks, whose reserve positions are allegedly worse than those of American banks. This point is made frequently in private conversations among New York bankers. If the result of a crisis in America is merely the replacement of the Eurodollar market by a gold-backed monetary system, however, Western Europe will walk away from a collapsing American economy and make its own arrangements to survive economically in combination with the Arab world, the developing sector, the Soviet Union and the East bloc.

Currently, the American short-term credit markets are supported by short-term foreign investments into dollar paper, due to the incredible 10 percent spread between Eurodeutschemark and Eurodollar interest rates. A massive, coordinated flight of such funds is not only possible, but considered likely by most New York City bank economists. A collapse of the dollar under these circumstances could trigger a financial panic in the United States. However, if all national sectors were equally affected, there would be no special damage to dollar markets.

Real economic performance, 1971-1979

Reinvestible surplus (S′)
(in billions of 1972 dollars)



However, even in the worst-case eventuality that the entire Eurodollar market froze due to the chain-reaction interruptions in payments, Europe has the mechanism through the European Monetary System to issue gold-backed liquidity to its own banks and freeze the foreign dollar balances. This is strictly a political question. If the links to the Arab world consummated last month in French President Giscard's trip to the Persian Gulf remain intact, there are no objective obstacles to Europe insulating itself from the worst effects of an American crisis. "Our only way out is through an export drive and deals with OPEC," a top West German banker told *EIR*. "There will be a terrible, terrible crunch for the American banks. We will be hurt. But we will survive."

Rep. Reuss and former Secretary of State Henry Kissinger are currently in West Germany demanding, in effect, that West Germany stay "in phase," to use the euphemism, with the American depression. What Western Europe will do is a political matter that Paul Volcker, Henry Reuss and Company have not left out of account. This week's visit may unpleasantly surprise them.

However, whether or not the international conditions prevail for the political success of the "managed depression" policy, there is a much deeper reason to characterize this policy as insane. The graph accompanying, generated by the LaRouche-Riemann computer model, shows that the net "free energy" (or all tangible goods available for reinvestment) in the American economy became negative at the beginning of 1980. The reason is that the "overhead costs" of industry, in the form of environmental and energy regulation, now absorb more than the useful, tangible surplus of productive industry.

The American economy has entered a self-cannibalization mode identical to the 1936-38 crisis in the Nazi German economy. Virtually the entire margin of the so-called recovery from the 1974-75 industrial breakdown is due to production to meet overhead costs. This is identical to the 1933-36 German "recovery" based on arms expenditure, which led to a potential breakdown crisis. The Nazis solved this problem with well-known methods.

The terrible irony of the American situation is that Volcker, Reuss and their collaborators propose to force a financial crisis in order to obtain a top-down reorganization of the economy. That reorganization itself would constitute the worst crisis that the American economy had ever endured, forcing the economy into further counterproductive channels in the energy and military fields, and cutting away the economy's flesh and bone. Physically—as the cited computer-model shows—the economy cannot stand this. The result would be a crisis past Mr. Volcker's imagining.

I. A bank-collapse bill

On April 1, President Carter signed into law the "Proxmire-Reuss Depository Institutions Deregulation and Monetary Control Act of 1980," familiarly known as the Omnibus Banking Bill. With it the U.S. Federal Reserve has been given by the liberal Congressmen Henry Reuss and William Proxmire from Wisconsin a legal dictatorship over the U.S. credit system. Reuss, Proxmire, and Fed Chairman Volcker have already signaled their intentions to use this power to cut credit to the U.S. economy so severely that the U.S. will go into an industrial decline more severe than the 1930s.

"With this bill you won't have any need for a credit control act," boasted one of Proxmire's aides to the March 24 *Business Week*. The Proxmire-appointed chief economist of the Senate Banking Committee continued: "The Fed can do it all."

The dictatorial provisions of the bill speak for themselves. They are:

1) Require all depository institutions to keep reserves with the Federal Reserve System.

2) Provide the Federal Reserve with emergency authority to raise reserve requirements to any level it likes.

3) Waive all state anti-usury laws. State-chartered depository institutions are permitted to make loans at 1 percent above the Fed discount rate.

4) Permit the National Credit Union Administration to lift the 12 percent usury ceiling for federal credit unions for up to 18 months.

5) Repeal Regulation Q, which allowed savings banks to offer higher interest rates than commercial banks, enabling them to attract capital to loan to the housing market. This measure alone will destroy housing and bankrupt hundreds of savings and loan institutions.

6) Preempt state usury laws for mortgage loans, lifting present state ceilings.

Through the Reuss-Proxmire legislation, Volcker will soon have total say as to how much credit and at what rates each and every financial institution in the United States may charge.

Sen. Robert Morgan (D-N.C.) commented: "I think this bill should be entitled the 'Depository Institutions Abolition Act' ... the effect could be the destruction of the savings banks and the mortgage industry of the United States."

Credit control and bank warfare

The passage of the "Omnibus Banking Bill" closely follows the invocation of the Credit Control Act of 1969, also authored by Proxmire and Reuss, by President Carter in his March 14 "sacrifice" speech on the economy. The bill gives the Federal Reserve carte blanche to "regulate and control any or all extensions of credit."

The Credit Control Act's invocation means that Fed Chairman Volcker will be able to put the broadest interpretation possible on the Omnibus Banking Bill. In particular, the bill has no provisions regarding volume of credit to be cut or interest rate limits on Federal Funds, the key source of funds to banks in the federal money markets, which are provided by the Fed. With the Credit Control Act invoked, Volcker can raise interest rates throughout the economy as high as he dares.

The press and Reuss's congressional office were unanimous this week that the bill will triage whole sections of the U.S. banking system. "Let the Banks Compete," read an April 2 editorial of the *New York Times*.

Go bankrupt is more the idea. "The banks gave into the bill because they feared that if there was no legislation and there was a financial crisis with 600 or 700 banks bailing out (of) the Fed, worse would happen ... they all want to have access to the Fed's discount window when the crisis hits," said Proxmire's Senate Banking Committee chief economist. "But mainly now we're thinking about ways to stop a lot of thrift institutions from going under." Tens of billions of funds must be rolled over by savings banks caught in the Fed's high interest rate squeeze—rates they can't afford to pay."

A top Reuss aide agreed with the *Wall Street Journal*'s assertion March 31 that the "Fed will engineer ... something akin to the Franklin National Bank collapse" with its current interest rates. "Sure, the Fed is looking into liberalizing the procedures whereby larger institutions can absorb those savings banks that are going down the tubes." Asked what else the Fed planned and whether it would be willing to financially help banks threatened with bankruptcy, he responded, "No, the Fed is just saying that if they go down the tubes, they go down the tubes."

The Omnibus Banking Bill

Below are excerpts from Rep. Henry Reuss's comments on the banking legislation which he sponsors in the House as they were published in The Congressional Record of March 20.

Mr. Speaker, next week the House will have before it the conference report on H.R. 4986, the Depository Institutions Deregulation and Monetary Control Act of 1980—the most comprehensive legislation affecting financial institutions and the users of their services since the 1930s....

H.R. 4986 is timely and crucial legislation. A summary of major points of the Senate-House conference agreement follows:...

III. Regulation Q and ceilings on interest paid on savings deposits

Authority to set interest rate ceilings, by majority vote, is given to a committee composed of the heads of the Federal Reserve Board, Federal Deposit Insurance Corporation, Federal Home Loan Bank Board, National Credit Union Administration, and the Secretary of the Treasury, with the Comptroller of the Currency serving as a nonvoting member. The NCUA will continue to set ceilings for credit unions. The committee, to be known as the Deregulation Committee will meet in public session at least quarterly.

All authority for interest rate ceilings on all types of deposits will end in six years. The Deregulation Committee is given a strong directive to phase out the ceilings as expeditiously as economic conditions and viability of depository institutions permit. A "target" phase-out rate is established as follows: one-quarter percentage point increase in the ceilings within 18 months; another $\frac{1}{2}$ percent within the next 18 months; and $\frac{1}{2}$ percent each year for the following three years.

The committee may phase the ceilings out either faster or slower than the "targets."

The conferees agreed that the phase-out must be accomplished in a way that ensures equity for small savers, and ensures competitive equity among financial institutions. It must also be accomplished with due regard for the financial condition of depository institutions.

During the 6-year phase-out period, the quarter-point differential for thrift associations will remain in effect.

IV. Powers of thrift institutions

(a) Investment authority is expanded to enable thrifts to earn more in order to pay higher interest rates on deposits. Federal savings and loans will be able to invest up to 20 percent of assets in consumer loans, commercial paper, and corporate debt securities; to offer credit cards and lines of credit; and to offer trust and fiduciary services....

VII. Insurance of accounts

The limit on federal deposit insurance is increased from $40,000 to $100,000. The FDIC may change its assessments to cover its increased exposure.

VIII. Bank reserves and Federal Reserve membership

Membership in the Federal Reserve remains voluntary.

Reserve requirements are imposed uniformly for all depository institutions on transaction deposits (checking and checking-type accounts such as NOW accounts, share drafts and automatic transfers) and on nonpersonal time deposits.

On transaction accounts, the initial rate is 12 percent (with a range of 8-14 percent) on deposits above $25 million. This includes telephone transfer accounts. Vault cash counts toward meeting the reserve requirement.

On nonpersonal time deposits of all maturities, the initial rate is 3 percent (with a range of 0-9 percent).

The Federal Reserve may impose reserve requirements outside the statutory limits, in extraordinary circumstances, for up to 180 days.

The Federal Reserve is also given authority to impose a supplemental reserve requirement on transaction accounts of 0-4 percent. A vote of at least 5 members of the Board is required to do this. The Federal Reserve will pay interest on these supplemental reserves at the rate it earns its own portfolio, currently 8.5 percent.

Reserve requirements for non-Fed members will be phased in over 8 years. Members will have their requirements phased down over 4 years. The phasing will begin immediately. Any new types of accounts that may be authorized will be subject to full reserve requirements. That includes NOW accounts except in the 8 states where they already exist....

The effect is to reduce reserve requirements on member banks and spread the burden evenly among competing institutions. Reserves will have to be posted at the Federal Reserve by 4,165 nonmember banks, 1,360 S&L's, and 70 mutual savings banks that now have no such requirement....

The Credit Control Act of 1969

On March 14, President Carter invoked the Credit Control Act of 1969, handing over to Federal Reserve Chairman Paul Volcker what the March 13 Business Week *"martial law" powers over the U.S. economy.*

The act is the most dictatorial legislation on the books in the United States today, and placed in the hands of a government faction dedicated to "controlled disintegration" of America's industrial base, it is the only tool that faction would really need to accomplish its aim. The Credit Control Act, Title II of Public Law 91-151, delegates authority to the President to implement a regime of "unprecedented credit controls," as a congressman at the time described it.

The act awards the U.S. President standby powers to direct the Federal Reserve to cut off credit selectively for the purpose of combatting inflation and, if necessary, of gearing up the economy for war. The act was inspired by the Congressional Joint Committee on Defense Production under the chairmanship of Senator William Proxmire (D-Wisc.) and grew, in fact, out of plans drafted by the Office of Emergency Planning for standby credit controls on consumer credit and other mechanisms for ensuring the defense production capabilities of the economy in the event of conventional or nuclear war. Some of the key provision of the law read as follows.

§1904. Credit controls

(**a**) whenever the President determines that such action is necessary or appropriate for the purpose of preventing or controlling inflation generated by the extension of credit in an excessive volume, the President may authorize the Board to regulate and control any or all extensions of credit.

(**b**)The board may, in administering this Act, utilize the services of the Federal Reserve banks and any other agencies, federal or state, which are available and appropriate.

§1905. Extent of control

The [Federal Reserve] Board, upon being authorized by the President under section 1904 of this title and for such period of time as he may determine, may by regulation

(**1**) require transactions of persons or classes of either to be registered or licensed.

(**2**) prescribe appropriate limitations, terms, and conditions for any such registration or license.

(**3**) provide for suspension of any such registration or license for violation of any provision thereof or of any regulation, rule, or order prescribed under this Act.

(**4**) prescribe appropriate requirements as to the keeping of records and as to the form, contents, or substantive provisions of contracts, liens, or any relevant documents.

(**5**) prohibit solicitations by creditors which would encourage evasion or avoidance of the requirements of any regulation, license, or registration under this Act.

(**6**) prescribe the maximum rate of interest, maximum maturity, minimum periodic payment, maximum period between payments, and any other specification or limitation of the terms and conditions of any extension of credit....

(**8**) prescribe the methods of determining purchase prices or market values or other bases for computing permissible extensions of credit or required down payment.

(**9**) prescribe special or different terms, conditions, or exemptions with respect to new or used goods, minimum original cash payments, temporary credits which are merely incidental to cash purchases, payment or deposits usable to liquidate credits, and other adjustments or special situations.

(**10**) prescribe maximum rations, applicable to any class of either creditors or borrowers or both, of loans of one or more types or of all types.

(**A**) to deposits of one or more types or of all types.
(**B**) to assets of one or more types or of all types.

(**11**) prohibit or limit any extensions of credit under any circumstances the Board deems appropriate....

REUSS AIDE

The Fed and Mr. Reuss 'don't plan any bailouts'

Following is an interview with Lloyd Atkinson, the chief economist for the Joint Economic Committee of Congress and Rep. Reuss's chief international economic advisor.

Q: Did you see the *Wall St. Journal* lead of March 31 which said that the Fed is going to pull off a Penn Central/Franklin National bankruptcy deliberately?
A: Sure. What the Fed is doing is looking into liberalizing the procedures whereby larger institutions can absorb those savings banks that are going down the tubes.

Q: Wouldn't this require legislation?
A: Lawyers at the Fed have a different interpretation, as a regulatory agency, they can. ... This will also involve the FDIC, C. Fred Bergsten's group at the Treasury, Jerry Newman at the Treasury Office of International Monetary Affairs, and Steven Axilrod's office of Monetary Affairs at the Fed. The lawyers are trying to figure out how much authority they have. The S&Ls are pretty much alright but most of the savings banks, biggies like the Dollar, are in trouble . ...We're going to see a few sizeable institutions collapse. The commercial banks don't show up quite so much in the data I have.

Q: You mean the Fed is going to refuse to bail anyone out?
A: If they go down the tubes, they go down the tubes... It's hard to tell on a time frame, we'll see a few fairly sizeable financial institutions collapse.... Some of them will be absorbed and the rest will just go down the tubes. The Fed is just saying if they go down the tubes, they go down tubes, There's lots of nonfinancial institutions, construction firms, that fold. They don't see any reason to treat financial institutions any differently. ...The Fed is aware of what the implications of its policies are. Some financial institutions are in very serious trouble. And they're not going to loosen credit for them. ..There are some instances reported already of larger commercial banks seeking absorption of savings banks in trouble.

Q: And the Heinz Amendment on the Omnibus Bill says foreign banks can come in if a bankruptcy is in question?
A: Exactly. The Fed and the Treasury are treating this as the same as any other bank trying to absorb a bank. Fred Bergsten and Jerry Newman are handling this. Working with Axilrod...

My next immediate effort is the stringent criticism that Carter's measures are inadequate. I'm advising Reuss to hold hearings and write letters to the Fed, urging the Fed to just put the discount rate up to at least 18 percent, make it a penalty rate! ... In fact the discount rate should be above the prime....

And if things go as I've warned we'll certainly have controls by summer. Even if the banks hang in in there, we'll have controls by September at the latest.

PROXMIRE AIDE

'We fully anticipate a financial crisis'

Following is an interview with Steve Roberts, the chief economist for the Senate Banking Committee, which is chaired by William Proxmire.

Q: Why didn't the regional banks and savings banks complain about the Omnibus Banking Bill's enforced Fed membership?
A: They realized they could have been subjected to a much rougher reserve requirement. ... They know the Fed has to clamp down. There were 600-700 banks who announced they were going to leave the Fed altogether. They were afraid that if the banks did pull out they'd get an even worse mandatory system. They feared that if there was no legislation and there was a *financial crisis* with 700 banks bailing out of the Fed, worse would happen, 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 and they all wanted to have that access to the discount window when the crisis hits.

Q: What is the implication of this bill passing in the midst of the Credit Control Act having been invoked?
A: If this bill passes, I think the Credit Control Act might as well be repealed, because the Fed will then be in a much stronger independent position of tightening monetary policy. The Fed will be able to apply reserve requirements however much they want, within the limits of the law, and in emergency situations, however high they want. The Emergency Provision of the law in both the House and Senate versions says you can set reserve requirements *outside the limits of the bill* for 180 days if there are emergency conditions....

II. The casualties

Intense meetings are now occurring at the Federal Deposit Insurance Corporation (FDIC), according to a top official at the agency, on what to do "with failing banks or banks that will come under tremendous financial pressure." One feature of the discussion is that it has already proposed allowing commercial banks to purchase savings and loans and savings banks, which would require a fundamental change in the government's banking laws which segregates ownership of these different banks. Arrangement of mergers and buyouts among commercial banks is also being discussed. An announcement by the FDIC, jointly with the Federal Reserve Board, the Controller of the Currency's Office and the office of House Banking Committee Chairman Henry Reuss (D-Wis.) will be made next week outlining what the measures will be, this spokesman added.

Mergers and bailouts of banks are now the order of the day and the *sotto voce* discussion on Wall Street because the tightening of interest rates by Federal Reserve Chairman Paul Volcker has left banks in a vise that is "bleeding them to death," in the words of one bank analyst. The banks currently are finding it hard to obtain funds; in some cases paying more for funds than can be obtained by lending them; and finding that with each new hike in the prime interest rate, which reached 20 percent April 2, the level of customers able to afford to borrow is becoming more narrow. Volcker's induced retrenchment of the banking system, once started, will now set off a spiral of bankruptcies and shakeouts.

While top New York commercial bankers such as David Rockefeller of Chase Manhattan say that "a real recession that bites" is healthy, the fact of the matter is that Rockefeller's Chase and practically every other bank in the economy could go under. Confirming this, a top Wall Street investment bank partner reported March 31: "Everybody has their list of banks that are in trouble. Mine includes the Philadelphia banks, none of which are very good; First Chicago, which is heavily in the paper market. I wouldn't go near Chemical Bank or Bankers Trust and I'm not too sure of Citibank (of New York). It's not just their domestic loans. Their international portfolio is in big trouble."

The erosion of bank spreads is just the first level of the problem that banks are facing, but a very real one. The savings and loan industry has found that the high interest spiral kicked off by Volcker is causing a massive disintermediation of funds, as erstwhile depositors now seek the higher yields given by money market instruments and Treasury bills. Whereas in January and February of 1979 the savings and loans took in \$7.5 billion in new savings, in the same two months of this year they took in just \$2.2 billion, less than a third of the 1979 rate.

At the same time, the Volcker high interest bubble is distorting the entire lending picture of savings and loans. Thrifts are now paying almost 16 percent on money market certificates issued at the prevailing six month Treasury bill rate, and cannot recoup sufficient earnings on their lending, even at 17.5 percent, to the housing market. So, in a true perversion of the banking function, the savings and loans are investing in large CDs issued by the commercial banks. This, however, cannot stave off bankruptcy for many savings and loans, and according to one economist 20 percent of the savings and loans are losing money with the ratio expected to go up fast.

On the commercial bank side, the overall problem of negativity in lending spreads is the same. The total fixed assets of several troubled banks consists of holdings of corporate bonds and mortgages, as well as consumer mortgages which were locked into when rates were considerably lower. This is putting the utmost strain on these banks. Any attempt by these banks to liquidate their bond holdings, however, runs the risk of dumping them into a falling market and pushing the market lower.

This process must continue to push the prime rate into higher ranges, placing even more pressure on the banking system. As this process continues it will soon be discovered that some banks have outpriced their customers and their bad paper outweighs both their bank capital and their earnings potential for the year. Then one has the classic case of bankruptcy.

So the banks are searching for cheap sources of funds. But it is here that Volcker's credit tightening bites hardest. Each new commitment in managed liabilities (liabilities above the level of deposits) above the level of late last year must be met with a 10 percent reserve requirement. This rules out for many companies the traditional area of a good amount of cheap funds.

The drying up of cheap sources of funds, and the expense of the discount window for large banks with over $1 billion in assets (which covers 70 percent of all U.S. banking deposits), has thrown every bank into a mad scramble onto the federal funds (interbank) market. Individual banks are gobbling up as much as $4 to $5 billion a day on this market.

If there is a sudden drying up of the federal funds market, the banking system is through. Already, certain large money center banks are exercising a profound influence over the future solvency of the banking system by determining which banks will get federal funds. "The large banks now will decide among themselves who gets the money," reported Jeff Nichols, economist for Argus Research Co. in New York. "They will decide whether a bank deserves to go through bankruptcy or not."

But the drying up of federal funds to some banks is just the trigger for a chain reaction of bankruptcies, as one firm's asset is always someone else's liability. Mediated through the industrial and agricultural economy, as specific companies are sent down the tubes because of the bankruptcy or inability of some banks to lend, other banks will be impaired. This dance of withdrawals and shutdowns can end in a 1930 Kreditanstalt which plunged the world into the last great depression.

Corporate shakeout

Not surprisingly a chain reaction of bankruptcies is threatening the corporate sector as well.

- The Chrysler Corporation announced this week that it may be brought down by the unwillingess of key banks to lend to it. Two Chrysler creditors, who are not members of the 300 member syndicate of banks with loans out to Chrysler, sued the company for nonpayment of loans. As a result, the country's tenth largest industrial company and third largest automaker was informed by the Senate Banking Committee March 31 that as a result of Chrysler's inability to get new loans, the $1.5 billion federal loan guarantee, on which Chrysler's survival depends, may be canceled.
- A recent Department of Commerce survey of the inventory-to-sales ratio, particularly on the manufacturing level, are, when *deflated*, greater than during almost any time in postwar history.
- Montford Meats, the Colorado-based third largest meat packer in the country, was reportedly forced to close and file for bankrutpcy.
- Itel Corporation, one of the largest computer companies in the nation, defaulted on $38 million worth of loans, which is probably the last step before that company's liquidation.

III. An economic

House Banking Committee Chairman Henry Reuss has developed a program for what can only be politely termed "fascism with a democratic face" in the United States. Referred to by Reuss and his aides as Economic Restructuring for the 1980s, it is a plan to triage large chunks of American industry through credit cutoffs implemented by the Federal Reserve under the authority of Reuss and Senator William Proxmire's various banking bills such as the Omnibus Banking Bill and the Credit Control Act.

Reuss introduced a congressional proposal on March 10 for the establishment by the President (under the emergency Government Reorganization Act of 1977) of a new Department of Trade and Industry which would not only take over foreign trade functions, but control all domestic U.S. industrial production. It would oversee, "the long term restructuring of industry," an aide said, "just like in a Third World country. Not only would the department encourage foreigners to build their plants here, but they would take over encouragement of new plant building by domestic corporations," he said.

If the DITI proposal fails, Reuss's office plans to get an Executive Order for doing the entire reorganization through a revamped Department of Commerce, his aide revealed.

The remaining industry, "those sectors which will be saved," as a Reuss aide put it this week, will be organized into "tripartite boards of government, industry, and labor"— technical corporatism —"modeled on Germany both before and after the war," the source said. These tripartite corporatist boards will organize a "major structural overhaul of the economy, through the creation of a national economic consensus and putting together a group of people in a bipartisan way to get the job done.... The crisis allows us to do this," he said.

Financial dictatorship

Reuss also introduced the Federal Reserve Remodernization Act of 1980 (H.R. 7001) on April 1, which would "give the Federal Reserve an advisory role, serving as the economic staffing for all the departments of government and to industry and labor," as Reuss himself put it, that is, to the entire economy. "The Federal Reserve has all these economists, real estate, and com-

restructuring of the U.S.

puters...I want to put it at the disposal of the President and the Department of Trade and Industry and teams of labor and industry under the White House," he stated.

As Reuss told Federal Reserve Chairman Volcker in congressional hearings March 27, he expects the Fed and his committee of Congress to jointly tell industry, through these tripartite boards, exactly what they may build and how much credit they may have. "I sponsored the Credit Control Act," Reuss told Volcker in hearings. "You are quite right in using it.... I understand you will get a report on the loan portfolios of the major banks on the first of every month. What I want to work out with you in Congress is how we can gain access to these reports so that we can play a role in monitoring compliance of the banks."

The immediate aims of Reuss's program, as an aide put it, are wage/price controls, "the barbicans" of Reuss's "citadel," the first defenses of his program. This means immediate implementation of wage/price controls, total control over monetary aggregates (credit), and fiscal budget cuts. Longer-term triage of the economy would follow.

ANOTHER REUSS PLAN

An agency for trade warfare

On March 10, Representative Henry Reuss (D-Wisc) proposed that a Department of Industry and Trade be established by executive fiat under the Government Reorganization Act of 1977. "Mr. Speaker, we ought to upgrade and give a real mission to the present Department of Commerce by creating in its place a new Department of Industry and Trade. Such a department to revitalize the American economy could be achieved under the President's reorganization power," said Reuss.

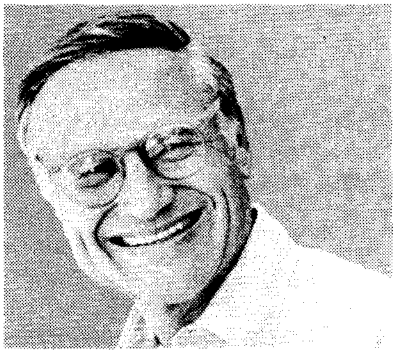
Reuss also proposed that the new department control all U.S. overseas trading as well. "The Department of Industry and Trade would put...under one tent all of our export aiding activities. All the export functions need to be concentrated in the new Department of Industry and Trade. There needs to be added the Office of the U.S. Trade Representative ... and the Export-Import Bank and OPIC."

According to Reuss, the new department would use the Federal Reserve System to implement policy. "Operating economies can be obtained for the new department by utilizing the personnel of the Federal Reserve System, without in any way compromising the independence of the Federal Reserve. The new productivity increases, structural reforming, 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."

Reuss declared that the department would oversee a restructuring of the U.S. economy. It would use tripartite corporatist boards modeled on those used by Mussolini. "Its technique would frequently involve the use of government, business, labor teams to make indicative plans and to propose solutions for those sectors of our economy that are lagging in productivity. ... In railroads, proceeding with the electrification of high traffic rail routes using coal-generated electricity and thus saving imported oil; and rationalizing rail systems generally. In food distribution, discerning new efficiencies that can bring about lower prices. In a whole range of industries," consumer electronics, conductors, textiles among them, determining why we are losing competitiveness and what can be done. In health care working for more rational delivery systems...

"These structural reforms need to be surrounded by at least five auxiliary outworks:

1. a fiscal policy that aims at a balanced budget now as much for its symbolic as well as its substantive effects,
2. a monetary policy that continues firm control over the monetary aggregates...
3. an employment policy that focuses on the structure of the labor market in our central cities and in our pockets of rural poverty,
4. gasoline rationing, and
5. a temporary wage-price freeze."



Exclusive

Henry Reuss talks to EIR

Rep. Henry Reuss granted the following interview to Executive Intelligence Review *on April 2.*

Q: Congressman you have proposed a Department of Industry and Trade that will deal both with the domestic economy and exporting. I understand its function is a restructuring of the economy. How would that work?
A: The Department of Commerce as a result of last fall's reorganization has a much more expanded export power. What currently needs to be done is a Department of Industry for here at home, so that we can recoup U.S. industry, such as the steel industry and auto. Our auto industry, in conjunction with government and Labor has to recapture the American-built compact. We have to enable the steel industry to develop its casting capability. We have to reindustrialize America, increase productivity, competitiveness.

Q: I see you proposed the Fed staff the new department.
A: I introduced a bill yesterday to reorganize the Federal Reserve in that regard. It's beautifully decentralized. I would use the Federal Reserve for staffing and solving these problems. It would work. The Federal Reserve has personnel devoted to monetary policy, but I want it to work also on structural policy.

My total proposals for restructuring are: 1) a strong White House which is central to this, 2) a revived and revised Department of Commerce, 3) help on this restructuring by the Federal Reserve; and 4) establishment of business, government and labor teams.

Q: What response have you had from the administration?
A: I have talked to Commerce Secretary Klutznick and Assistant Secretary Hodges. They're sympathetic.
Q: Can you go into more detail about your proposal?
A: The bill will have hearings right after the congressional recess. I have called for the Federal Reserve to have an advisory role, serving as the economic staffing, for all the departments of government and to industry and labor.

The Federal Reserve has all these economists, real estate, computers and they don't have enough to do. I want them to put it at the disposal of the President and the Department of Trade and Industry and teams of labor and industry under the White House. These teams have the task to make plans for a troubled economy. For example, the Federal Reserve would advise the different agencies. An example is that the railroad situation is very bad. The Department of Transportation needs some staff help. The Chicago Federal Reserve is the homebase of the Milwaukee Railroad. The Federal Reserve could have given help on that. They could have proposed the abolition of the ICC which I think should be done.

If we had this then, for example, Detroit would not be such a mess. Four years ago we would have told Chrysler to stop focusing on gas-guzzler cars and we would have had whatever regulatory measures were needed to do that. Instead Chrysler kept up with their silly ways and they and Ford and GM are in deep trouble.

Q: What has been the response of labor?
A: They are favorable. I know this by my discussions late at night with labor leaders.

Q: Your bill deals with export questions. The Europeans have been subsidizing exports and there is much discussion in Congress about either stopping this in Europe or beginning such a policy here.
A: There is too much subsidizing of exports there. But we can't call our dogs off until they do.

Q: You are going to Europe next week to discuss some of your proposals with them. Where are you speaking and what will you tell them is Europe's role?
A: I will speak to government leaders at the OECD in Paris, the Ebert Foundation in Bonn and the Metale Gesellschaft in Frankfurt, before a group of industry, government and labor leaders. I will discuss my proposals and how it relates to Europe.

Q: How does it relate to Europe?
A: Let me pass on that one.

IV. A NATO military buildup

A consensus has been reached at Washington's leading centers for planning Anglo-American military strategy that the threat of an oil flow cut-off from the Persian Gulf must be used as a weapon to force Western Europe into agreeing to a massive military buildup over the next few years. This line is now being pushed by the Atlantic Institute, the Brookings Institution, and the Georgetown Center for Strategic and International Studies (CSIS).

In a series of studies and interviews, Atlantic Institute strategists have been most vociferous in insisting that Europe must be brought "into line" by the threat that the U.S. will pull units out of Central Europe if the Europeans don't agree to take "a greater share" in an expanded NATO organization. If they refuse to do so, the Atlantic Institute is warning, Europe would find its oil supplies jeopardized by an American refusal to secure them.

This line is hardly surprising given that the Atlantic Institute directorship significantly interfaces the Club of Rome, the organization which has pioneered the modern "limits-to-growth" propaganda as a means of generating hysteria over resource scarcity and thereby increasing Anglo-American control over resource flows. Harlan Cleveland, a former U.S. ambassador to NATO, is a Vice-Chairman of the Atlantic Institute and a member of the U.S. Association of the Club of Rome. George McGhee is also a former NATO ambassador, a member of the Club of Rome, and Director of the Atlantic Institute.

Another Atlantic Institute Director, Helmut Sonnenfeldt, also at Brookings, has participated in a Brookings study, along with Brookings Middle East Director William Quandt, profiling how Europe will be increasingly vulnerable to instability in the Middle East, especially "inter-Arab warfare," and therefore would be forced to take a larger role in an expanded NATO structure.

Variants on the same theme have surfaced in two key policy formulations:

• A March 19 speech at New York University by former National Security director and Ford Foundation head McGeorge Bundy. Bundy warned of the threat of "internal instability" in Gulf countries and proclaimed that the U.S. could not and would not be able to defend Europe's energy supples from this threat unless Europe agreed itself to play a major security role (see below).

• An April 1 conference at CSIS on "The Future Role of Naval and Marine Forces," chaired by CSIS gulf expert Alvin Cottrell. A speaker at that conference, Jeffrey Record, formerly of Brookings, remarked after the event that the U.S. should seek "to put the fear of God into the Europeans" if they refuse to "play a larger role in an accentuation of NATO." Record insisted that gulf oil supplies were threatened by both "intra-Arab conflict" and "religious fundamentalism à la Khomeini."

McGEORGE BUNDY

'Oil shortages hurt Europe the most'

Following are excerpts from a speech which former National Security adviser McGeorge Bundy delivered at New York Univesity on March 19.

"The authentic crisis I speak of is the crisis in foreign and defense policy that lies behind the headline stories of hostages in Iran and Soviet invaders in Afghanistan. The root of this crisis is the inescapable dependence of the most important friends and allies of the U.S. on sustained supplies of oil from the region of the Persian Gulf. ... This crisis was not created by the Soviet advance on Kabul and still less by the kidnapping of American diplomats in Teheran. ... It is much larger; its roots go deeper; it will last till the end of the century.

The nations of Western Europe and Japan are economically dependent on Persian Gulf oil in a most categorical and decisive way. ... Where oil for us is less than half our energy, for Europe it is about three fifths and for Japan three quarters. ... And for Europe and Japan it is a dependence quite unaccompanied by any power to protect that Persian Gulf oil from outside threat.

There have already been two relatively modest interruptions of these supplies—an oil boycott in 1973 and a cutback of Iranian oil in 1979. Each of them had brutal consequences, though each was small compared to what could easily happen in the future. Either by an expansion of Russian physical power—not the more likely case—or by á major shutdown resulting from upheaval within this area, there could be a most dramatic threat to the whole fabric of European and Japanese society. And it could come at any time....

The President also understands that the gravest danger in the Persian Gulf is not a direct Soviet attack but internal turmoil—and that while American power can and will almost surely hold the ring against invasion from the north, the U.S. cannot—as it should not—by itself protect the region from itself, or make it "safe" for rich consumers. Mr. Carter has said some of this and should say it all. *Only* the Americans can deter the Russians, but the Americans *alone* can do almost nothing else....

THE ATLANTIC COUNCIL

'Giscard shouldn't do' what he is doing'

Dr. Francis Wilcox, head of the Atlantic Council, granted an interview on April 2 to EIR *which we excerpt here.*

Q: I understand the Atlantic Council has begun a study of the NATO alliance.
A: The project just got under way. ... We don't really have our sights set completely at this point, but we do plan to cover the following areas: The extent to which the U.S. and our allies are capable of dealing with emergencies; the relationship between defense and detente; the military balance; the questions of readiness and supply—especially vis-à-vis NATO's southern and northern flanks; the impact of NATO outside specifically defined NATO areas, especially the Middle East and Africa; resource constraints and dilemmas.

Q: How about the economic and political aspects of NATO, for instance, the ramifications of the European Monetary System and the question of the economic underpinnings of a defense system?
A: Oh, absolutely. These are questions of the utmost importance, and we will give in-depth attention to them. We'll take a close look at our allies and the divergence of views between us and them.

Q: Do you find the German-French attempt to carve out an apparently independent strategy disturbing?
A: Well, yes, I do. And I must say that one of our working groups will try to come up with the best way of dealing with this problem. I don't agree that getting angry at our allies is the way to get them to act in a more responsible fashion. We aren't too pleased with Carter's handling of the situation either. We must emphasize to them that they are far more dependent on energy imports from volatile areas than we are, and that they therefore have a stake in the question of our armed strength outside the NATO area proper.

Q: Keegan brought up the question of Soviet E-beam capability at Congressional hearings a few weeks ago....
A: Definitely. These questions will be addressed with utmost seriousness, as will generating capital to permit a defense catch-up.

Q: Back to the question of our allies: What makes you think that they will go along with what you recommend, given how upset they are with Carter's leadership?
A: The feeling of our working group so far is how tremendously important it is that our allies know what we're up to—we must have a greater degree of constancy, much more than Carter has provided. We must tell our allies in advance what steps we're going to take, for example, in response to a Soviet move into Afghanistan. The whole problem revolves around consultation. We must have closer consultation with our allies. As I said before, though, the Europeans are just going to have to realize how important NATO is in protecting their access to raw materials in the Third World—not just NATO as it exists, but an expanded NATO.

Q: What do you think of Giscard's trip to the Mideast? Isn't it possible that the Europeans are working out their own way of securing these raw materials?
A: You have to expect the French to do unusual things—not just unusual, but unreasonable as well. I must admit I'm dismayed at what Giscard has been doing. ... I don't like this arrangement with Iraq. That doesn't do NATO any good....

Q: Well, aside from the consultation carrot, won't you be considering some sticks to use against Europe?
A: Well, yes, sticks. They are necessary sometimes. These countries are pretty independent though, and you will have to be a little careful of what sticks you use, or the whole thing will backfire. ... We will be looking at certain means of persuasion—trade relations, the Mansfield amendment might be worth reviving in some form [the perennial amendment offered by former Senator Mike Mansfield, now Ambassador to Japan, to withdraw U.S. troops from Western Europe]—that would really create some domestic problems....

V. The war on Europe

House Banking Committee Chairman Henry Reuss (D-Wisc.) will be traveling to the West German capital of Bonn on April 8 to announce the expected result of Federal Reserve Chairman Paul Adolph Volcker's high interest rates on Europe. "The European Monetary System could go down the tube," is what Reuss will say in an April 10 speech to the elite Friedrich Ebert Foundation, according to a top Reuss aide.

Reuss will be traveling to Bonn at the same time as former Secretary of State Henry Kissinger and an entire delegation of U.S. congressmen who were invited by the Konrad Adenauer Foundation. In a series of meetings, they will propose to West Germany that Europe's only way out of international monetary crisis is to implement "an entire international economic restructuring" based on the U.S. "Economic Restructuring for the 1980s" plan Reuss submitted to Congress during March.

Reuss' first stop in fact will be the Organization for Economic Cooperation and Development in Paris on April 5, where, according to Reuss in an exclusive interview with *EIR* "I will discuss my proposals for the U.S. economy and how they relate to Europe." The OECD is the umbrella economic policy board for NATO which dictates economic policy to most NATO member governments.

The congressional delegation, which includes Senator William Roth (D-Del.), fresh from the London Trilateral Commission meeting, will visit the Konrad Adenauer Foundation from April 8 to 11, where Reuss will join them. Reuss will stay at the Friedrich Ebert Foundation, the correspondent of the New York Council on Foreign Relations, April 10-12 for private discussions, and then travel on to the city of Frankfurt, where the congressman will give a speech to a meeting of government, industry, and labor at the Metallgesellschaft Corporation.

Trade war

From Capitol Hill, Senators John Heinz (R-Pa.) and Birch Bayh (D-Ind.) together with the Georgetown Center for Strategic and International Studies, have launched a trade war against European exports of industrial development to the Third World. Heinz's office was asked about the intent of the Competitive Export Financing Act of 1980, which he and Senators Alan Cranston and Jacob Javits are cosponsoring. "The purpose of the bill is to bring Europe to the bargaining table" to negotiate the cutbacks of their export financing, the aide said.

Georgetown CSIS itself held a March 26 press conference in Washington to announce publication of the first studies of its "U.S. Export Competitiveness Project," which supports the Heinz and related bills. Project Chairman Robert Kilmarx told the press "we are living in a dream world with respect to our allies. They are self-serving, nationalistic and jingoistic with respect to their export subsidy policies" which must be halted.

And Senator Bayh, in a speech to the Senate March 20, said he plans legislation to declare a U.S. trade war against all "our allies and erstwhile friends" who do not adhere to the U.S. trade boycott against the Soviet Union. "If such cooperation is not forthcoming voluntarily, we must use our own economic weight" against Europe, he said.

Toppling the German government

This war on Europe dates back to last August when Reuss announced that he was intervening in the West German elections to try to topple Chancellor Helmut Schmidt, on whose policy rests the future of the European Monetary System. Reuss, a City of London spokesman on Capitol Hill, wrote then to G.W. Miller that the Schmidt government must be "urged" by U.S. pressure to cease it's progrowth policy and "fight inflation primarily by fiscal policy." Reuss admitted to the German press that he was deliberately "intervening" in Germany's election debate.

In November, Reuss's House Banking Committee and the Joint Economic Committee, of which Reuss is a ranking member, issued a report titled "The European Monetary System: Problems and Prospects," which predicted the early collapse of the EMS based on "a rapidly depreciating dollar (which) can generate severe strains within the EMS," and said that other European countries would drop out of the EMS because of German "tyranny."

REUSS SPEECHWRITER

'The EMS could go down the tubes'

An aide to Rep. Henry Reuss who drafted the congressman's April 10 speech to the Friederich Ebert Foundation in Bonn said that Reuss was working on the following background assumptions regarding the crisis in the international monetary system.

As soon as the Volcker policies really take effect here in the United States, the economy will go into deflation. This will push our interest rates down and weaken the dollar. But the Europeans will be very reluctant to intervene. If the dollar starts to go, it will have to go, because their intervening would be too inflationary for them now. The resulting dollar crisis could wreck the EMS. It could hurt the EMS a lot; they do not have a dollar policy. They have been lucky the dollar has been stable. The EMS could go down the tubes... The parities [among EMS currencies] will get shoved to hell and they may just have to abandon them. If the pressures get too intense on the non-German members of the EMS, they may just have to scrap it and say "The hell with it, we're not going to wreck our domestic economies just to maintain the parities."

Therefore Reuss says our priority has got to be some negotiations with the Germans. He'll tell them that they have been demanding we deflate, and now we have, and we're in recession, and they are going to have to give support to a program for long-term restructuring of the U.S. economy. Germany will just have to support Reuss's Economic Restructuring for the 1980s, and demand that Carter implement it. That means in the short-term wage/price controls and budget cuts, in the long-term, total restructuring of major economic sectors.

The aide then quoted a draft from Reuss's speech:

Chancellor Helmut Schmidt must bring his personal weight to bear in international forums and institutions on Mr. Carter to see that the fundamental restructuring of the U.S. economy takes place, to urge programs of fundamental reform rather than yet another macroeconomic ratcheting down of the U.S. economy....

I call for the endorsement of the work of the Brandt Commission. In a world situation in which we face a world-wide restructuring of the financial obligations and the debts of the less-developed countries, industrial nations must support and put into place institutions to deal with this such as the Brandt Commission's proposed World Development Fund...

On the basis of this fundamental economic reform, the industrial West will be in a position to cut a deal with OPEC. We would be in a position to guarantee a real price for the U.S. dollar and thus for oil, in exchange for oil availability and stable oil prices.

The aide then commented that Reuss, in his off-the-record remarks, would demand that Germany and all Europe

House banking chairman demands intervention

The following exchange took place between Henry Reuss and President Carter and his Treasury Secretary G.W. Miller in late August. The Congressman's intervention into the West German electoral process continues to this day, according to his aide Jaimie Galbraith.

Reuss to Carter, Aug. 2, 1979

The free world is on precisely the wrong track. Germany, Japan, and others similarly situated should fight their domestic inflation in a way that will not endanger the world's currency, the U.S. dollar, into a depression that could sink the whole free world. In short, our trading partners should fight inflation primarily by fiscal policy rather than monetary policy. They are doing just the opposite. I respectfully suggest that you urge the leaders of Germany, Japan and other countries to change their anti-inflation *mix* so as to rely less on monetary policy and more on fiscal policy.

Miller to Reuss, Aug. 30, 1979

...There are continuing high-level discussions with authorities of Germany, Japan, and other countries, and these will be used to discuss the issues you have raised.

Reuss to the West German papers *Handlesblatt* and *Wirtschaftswoche*, September, 1979

Q: Your dramatic intervention for fiscal tightness comes at a time in Germany when the election is *participate in "an entire international restructuring" modeled on his Economic Restructuring for the 1980s in the U.S.*

It's a question of all of us doing what we're supposed to be doing. We cannot get our monetary cycles completely out of phase again ... he's going to press for a coordinated fight against inflation. We ought to put into place steady monetary and budget policies, and wage price controls. The same kinds of policies are required for West Germany, Japan, and the other countries. They must keep their budgets down, reduce their monetary aggregates, and implement wage/price controls. ...Of course they won't implement it, but just because they ignore him that never stops Reuss from telling them ... this is not a one way option ... we're talking about an entire international restructuring.

Then Reuss will tell them we have to get serious about beating up on OPEC for beating up on the LDCs. He figures that one thing that has been noticeably absent is any attempt to embarrass OPEC and point out that the consequence of their policies is disaster in the LDCs. He wants the consuming nations to get together and attempt to embarrass OPEC, exposing them...say that there are bodies lying in the street dying in the LDCs because of their policies. He'll demand they cut oil consumption and go to alternative energy. ...They've been moving ahead too much on nuclear. This doesn't seem to bother them, the safety problems....

It's OPEC itself which is particularly anxious to divide us from Europe...."

drawing near and nobody is thinking of raising taxes, but everybody is discussing whether taxes should be lowered in 1980 or 1981. Did you mean to inbervene in this debate?

A: I simply point out that a moratòrium on constructive election year dialogue would only result in perpetual silence. In fact there is an alternative to German tax cutting—namely a less restrictive monetary policy. Forswearing tax reduction should make it possible for the Bundesbank to avoid excessive interest rate increases...I would welcome German advise against a vote-catching U.S. tax cut....

...I do not suggest the German government is engaged in conscious dollar weakening, but there is a definite risk that the monetary policies now being pursued in Germany will in fact weaken the dollar and *force countermeasures from the Federal Reserve that will have grave consequences for the world economy.*

BIRCH BAYH

'Europe boycotts USSR, or we boycott Europe'

Senator Birch Bayh (D-Ind.), a member of the New York Council on Foreign Relations, inserted a statement on "Deterring Soviet Adventurism" into the March 20 Congressional Record. *We excerpt from that statement.*

The importance of effective U.S. sanctions against the Soviets for their invasion of Afghanistan will require that our allies do not undermine our efforts. ...

If such cooperation [from America's European allies, particularly] is not forthcoming voluntarily, we must use our own economic weight to encourage the cooperation necessary to achieve the withdrawal of Soviet troops from Afghanistan and send a clear signal that no further military adventures should be undertaken. I will soon introduce legislation which will permit the President, by proclamation, to increase duties on goods from countries which do not cooperate with our efforts. This legislation would also exclude from U.S. Government procurement under the International Government Procurement Code the products from such countries...

While this step might seem heavy handed to some theoreticians of international trade and politics, it is a useful signal which should be understood by those nations who see America's response to the Russian threat to world peace as a splendid opportunity for them to make a fast buck. Put simply, if a country insists on undermining our efforts...then that country's exporters should face the likelihood of higher tariffs on their products exported to the United States as the price of their indifference to the presence of Soviet-manned tanks in Afghanistan. ...

And our oil consuming allies must understand that their economies and prosperity depend far more than our own upon secure lines of supply from the gulf.

So what do we do? To be sure, the present situation requires a careful, balanced, and effectively directed effort to enlist assistance of other countries... Our concern about stopping the spread of atomic weapons must continue, NATO should play a part.

The time has come to make our position clear. The United States expects its allies, for whom it provides a nuclear umbrella at great cost to our own taxpayers, to join in defending the Persian Gulf region from Soviet takeover or domination, and we do not intend to disregard flagrant attempts to undermine our own efforts to sustain the reprisals we have undertaken....

Italians and French join in crackdown on terrorists

by Paul Goldstein

A significant new development emerged in the European antiterrorist fight last week with unprecedented cooperation across national borders involving the French, Spanish and Italian police in a massive roundup of top-flight terrorists.

On April 7 of last year, the Italian magistracy and military police (carabinieri) jointly initiated antiterrorist operations at a level previously unknown when they temporarily shut down part of the University of Padua with the arrest of some of its most prestigious professors charged with masterminding terrorist operations, including the 1978 kidnapping and assassination of Christian Democratic Party President Aldo Moro. Those and subsequent arrests placed evidence in the hands of the Italian magistracy leading to two previously unaccepted conclusions: first, that terrorism is organized as a unified international phenomenon with a unified international control apparatus; second, that the "above-ground" New Left radicals—which in the case of Italy includes the so-called Autonomi and organizations such as Lotta Continua that were created in conjunction with the American Weathermen and others—are an intrinsic part of the terrorist networks. Evidence was in fact produced to show that in essence the membership of the "above-ground" organizations was generally interchangeable with the acknowledged terrorists.

While Italian magistrates such as Judge Calogero, the individual behind the Padua arrests, said repeatedly that France in particular was a crucial center of international terrorist deployment, it was not until last week that direct action was taken in France. Now the French newspaper *Le Figaro* is speaking of the creation of a "Euro-police" in effective operation against terrorism.

As Italian paramilitary police units moved in on a terrorist safehouse in Genoa, killing four leading members of the notorious Red Brigades in a shootout last week, French police and special anti-terror units were scooping up 30 terrorists in three French cities and capturing 1,000 kilograms of explosives and hundreds of submachine guns.

Four days prior to the French and Italian actions, Spanish officials arrested 20 members of the Jesuit-controlled Basque terrorist group, the ETA. In addition, Italian authorities carried out a series of well-coordinated arrests of over 50 terrorists in six cities across Italy, bringing the total count of terrorists slain and captured to approximately 110 over the last week in March.

Anniversary of Negri Arrest

The raids were carried out exactly a year after the arrest of Red Brigades controller Professor Toni Negri of Padua University, charged with masterminding the kidnap-murder of former Italian Prime Minister Aldo Moro. The Negri case, laying open the connection between certain "noble families" of Europe, "respectable citizens above suspicion" including leading Italian Socialist politicians, the terrorist legal support networks, and the terrorists themselves, provided the first big break in the battle against international terrorism.

Since the Negri arrest, European intelligence experts have informed *EIR* that anti-terror units have made two

important advances. First, in recognition that the terrorists operate as part of one integrated international network, police have upgraded their own cooperation and coordination across national boundaries. Second, they say, the authorities have recognized the connection between terrorism and the international organized crime entity known as Dope, Inc., which provides financing for the terrorists through the sale of illegal narcotics—and have broadened their investigations as a result.

According to *Le Figaro,* members of the arrested group Direct Action in Toulon are known drug pushers with links to organized crime, and "even though they operate on different levels, they are part of the same thing."

The arrested members of Direct Action have been tied to the assassination attempt against the French Minister of Cooperation and in the attempted assassination of French Labor Minister Boulin nearly six months ago. Subsequently, Boulin "committed suicide"—a story French authorities privately disbelieve.

The crackdown in France is most significant, according to European press accounts. The 30 arrested terrorists are connected to the Red Brigade organization in Italy. Using parts of southern France and Paris as their key coordinating centers, the terrorists carried out their recent wave of assassinations in Italy and France. Le Figaro reports that Franco Pinna, Enrico Bianco, and Orsina Marchionni, arrested in Toulon, France, were all members of Italy's Red Brigades with ties into "Spanish clandestine groups." Moreover, each of them was wanted in connection with the assassination of former Prime Minister Aldo Moro. Police are saying that these terrorist cells are a "free floating operation" that maneuvers from area to area.

The breaking open of the French side of the terrorist international enabled Italian authorities to move in on the Italian Red Brigades units. Led by Carabinieri General Carlo Dalla Chiesa, 150 police were involved in carrying out the Italian end of the crackdown. Before the four members of the Red Brigades were killed in Genoa, Dalla Chiesa rounded up two prominent leaders in Turin and Genoa, Patricia Peci and Rocco Micaletto. Following their arrest, officials issued a communiqué stating that these arrests are "only the beginning." Officials were quick to point out that their crackdown was part of a 19-month-long planning program concentrating on the Genoa and Piedmont areas.

In Bologna, another major break developed when Italian police arrested three British subjects along with members of the Revolutionary Action group. The three British subjects, Kenneth McBrugen, Mark Holten, and the daughter of a leading British oligarchic family named Helen Jean Weir, were integral to the terrorist operations. Through a cooperative effort between the Interior Ministry's special anti-terrorist unit and the DIGOS, the national police, the Revolutionary Action organization has been knocked out of commission. The former leader of the group, Gianfranco Faina, who was arrested last July, had links to a mysterious figure named Ronald Stark. According to the newspaper *La Repubblica,* Stark has been identified as a "CIA agent" who worked closely with Faina and supplied the terrorists not only with drugs, but with the financial support derived from drug sales. Faina, a former professor from the University of Genoa, had been involved with Toni Negri in the "new left" group Potere Operaio, the forerunner of the Red Brigades.

The counterterror action was not limited to northern Italy. Dalla Chiesa's forces carried out another far-ranging operation, arresting 14 members of the Red Brigades group. One leading member of this terrorist cell, Giovanni Tilocca, is the son of the Commander of the prison guards for the prison, Badé Carros. This jail is the maximum security prison where many of the leading terrorists are kept and where there has been a series of breakout attempts. Italian authorities are keeping quiet as to the full implications of the arrest.

The least publicized, important side of the counterterror operations is the full vindication of Italian Judge Vitalone's charges that members of the Italian magistracy who belong to a group called the Democratic Magistracy have enabled terrorists to continue with their actions as a result of their judicial decisions. About 20 percent of Italian magistrates belong to the group, which has now been officially charged with obstructing justice.

Italy

A Carter phone call to a Roman squillo

by Umberto Pascali

James Earl Carter personally intervened into the internal affairs of Italy at the end of March by telephoning "caretaker" premier Francesco Cossiga to "invite" him to form a new government immediately. Carter's undiplomatic action, reported angrily in the March 29 edition of *La Notte*, a Milan daily, was the culmination of a series of strongarm tactics by the British and American governments to ensure that Italy's next government will be their tool, and not an ally of France and West Germany with policies of East-West detente and international monetary reform.

La Notte headlined its exposé of the Carter phone call, "Govern o Squillo" (government by telephone), capitalizing on the other meaning of the word *squillo*—prostitute. Journalist Walter Semeraro speculated that the U.S. president told Cossiga the U.S. planned a dramatic action in the Eastern Mediterranean—Iran, or possibly Afghanistan—and demanded that he ally his Christian Democratic faction with Italy's Socialist Party under Bettino Craxi to form a new government the United States "can rely on."

Treating Italy as a Banana Republic

In short, commented *La Notte*, in case of an American military adventure, Italy will be treated as a "banana republic," most probably including provision of bases and other staging facilities to American forces. It appears that "big political shifts have always to be accomplished under pressure of events outside the democratic system proper," concluded Semeraro.

The "Dear Francesco" call from the White House exemplifies the significance of the tug-of-war now underway over Italy. Barring such intervenion, the most likely next government would be formed by Giulio Andreotti, the former Christian Democratic premier, who pledges to bring the Communist Party, the nation's second largest, into a new government to guarantee stability at home and a base from which to conduct meaningful economic and political diplomacy abroad. Andreotti has applauded the Franco-German alliance behind the European Monetary System, and those nations' efforts to preserve East-West detente in the face of Anglo-American anti-Soviet posturing.

An Andreotti victory over Cossiga at the Christian Democratic congress in late February was only narrowly averted when pro-Cossiga operations by the Roman black nobility's Jesuit intelligence service were suddenly augmented by a sudden visit from U.S. Secretary Cyrus Vance. Vance threatened key Andreotti supporters into shifting sides—he carried, according to Italian sources, "a suitcase full of dollars and a pistol."

Although a well-schooled politician, Andreotti's response to defeat was to declare the issues too important for "business as usual," and absolutely refused to compromise, preventing Cossiga from forming a government. Cossiga could not respond to Italian president Pertini's *pro forma* request that he make the attempt, when the Communists threatened an immediate no-confidence vote.

The U.S. and British governments mounted pressures on Italy dramatically when rumors began circulating that Cossiga would have to renounce his caretaker role to permit Andreotti to form a coalition. On March 25, the London *Times* published a front page interview with British Foreign Minister Lord Carrington, conducted by Italian Aurelio Levi, a journalist in the employe of British intelligence's International Institute for Strategic Studies. Carrington said he was no longer concerned about the evident willingness of France and West Germany to expel Britain from the European Economic Community over a budgetary-contributions dispute. A Cossiga-Craxi government in Italy, he said, "in two to four weeks ... will tour European capitals in search of a compromise."

And in fact, Cossiga, as chairman of the EEC, postponed the scheduled March 29 summit at which the showdown feared by the British would have occurred.

Secret U.S. Italian military maneuvers

Even as the punctual telephoned order from the President of the United States was delivered, reports came in that Italian military forces were secretly conducting joint patrols or possible maneuvers with American forces in the Eastern Mediterranean or Indian Ocean region. That exhibits the dangers of London's *squillo* Cossiga continuing in power: With its deep cultural ties and tradition as a "bridge" between Europe and the peoples of the Middle East, Italy could become a Trojan horse within the peace bloc formed by the European Monetary System nations, to which French President Giscard only recently won the leadership of the Arab world.

Latin America

A turn to the East in trade programs

by Mark Sonnenblick

While Jimmy Carter's top antinuclear diplomat was left cooling his heels in Buenos Aires on March 25, a West German technical team in the same city completed negotiations for the sale of a nuclear power station to Argentina. Meanwhile, two top Argentine officials toured Soviet nuclear centers and examined the nuclear technology being offered by Argentina's *leading* trade partner, the Soviet Union.

In only three years, the Carter administration's crusade for "human rights" and its efforts to prevent the use of nuclear energy—and indeed, any industrial development—in the least developed countries have lost for American industry and agriculture one market after another. Even the hoary rhetoric of anticommunism trumpeted by military regimes is no longer an effective prophylactic against Soviet economic penetration of America's erstwhile trade partners. Carter adviser Zbigniew Brzezinski and a faction in the Pentagon are still plotting the extension of NATO into the South Atlantic. But the necessary mainstays of any such operation, Brazil and Argentina, have made a mockery of Carter's "Soviet grain embargo" by exporting millions of tons of additional grain to the U.S.S.R. at premium prices.

Argentina euphoric

The liberal *New York Times* waxes hysterical in its March 26 editorial, "Argentina's Silent Partner": "Argentina's anti-Communist junta is the toast of Moscow for having increased grain sales to the Soviet Union in defiance of the American embargo. Thus do two nations ignore ideologies so sacrosanct. ... The Argentine generals, for all their pronouncements about defending Western civilization, have shown that their principles are stuffed with straw."

As the *Times*'s feeling of deception certifies, General Videla's government seems to be making the supreme sacrifice: giving up the hopes nurtured in repeated visits by Henry Kissinger of being made Southern Hemisphere members of the Trilateral Commission.

"The feeling in Argentina, generated by the country's defiance of the U.S. embargo, is one of euphoria," complains the *Washington Post*. "It can now demonstrate its independence from the United States, show the world the importance of a Third World power, enhance its own self-esteem and gain national solidarity, since almost every faction in the political spectrum seems to agree with the government's position on the embargo." Such a national triumph at the expense of Washington bolsters the sagging position of General Videla, whose Friedmanite economic policies have just caused the collapse of the fourth largest bank amid 123 percent inflation and labor discontent. Not since the 1978 World Cup soccer victory has the dictator seen such unity.

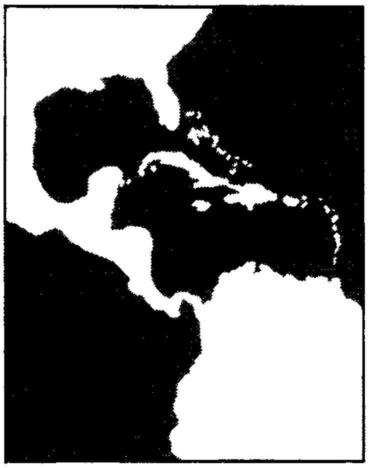
The Carter administration has tried to veto Argentine grain and nuclear decisions by sending down General Andrew Jackson Goodpaster of West Point in January, Commerce Undersecretary Luther Hodges two weeks ago, and "Special Ambassador for Non-Proliferation Matters" Gerald Smith this week. Argentine military men basked in the attention they were getting from Washington after years of ostracism. Goodpaster got nowhere; Hodges' office said: "All I can tell you is that he went down and came back"; and Smith was wined and dined while German negotiators approved Argentine safeguards on KWU's sale of a nuclear power station to Argentina.

Brazil also turns to Europe

The Brazilians are also extremely attentive to the better deals coming from Europe—and from the Soviets in particular. They have been quite discreet but insistent, in selling a couple million tons of corn to the Soviets at $10 per ton above U.S. export prices.

Similarly, the French aircraft industry is about to make an agreement potentially worth billions with Brazil on the basis of the kind of technology transfer abhorrent to Washington and to many short-sighted U.S. corporations. The French Air Force has agreed to buy 35 Xingu training planes from Brazil, instead of from Cessna or Beechcraft. The French state-owned SNIAS will assemble helicopters in Brazil and use Brazil as a "showcase" for marketing to all of Latin America. Brazilian airplanes are considering buying the Airbus, instead of the 747, and the Brazilian Air Force will buy 50 Mirage-50 fighter-bombers (the highest priced item), if austerity constraints can be breeched. And the Brazilian Army Chief of Staff will be off to West Germany in June to seek similar arrangements in sales and production rights of down-to-earth hardware.

Meanwhile, Brazil is making peace with its historic enemy Argentina; they are negotiating agreements on shared communications satellites, joint aircraft production, and even nuclear cooperation.



Is Cuba fomenting revolution to get at Mexico's oil?

by Tim Rush

In the last week of March, the Carter Administration deployed a battery of high officials to Congressional hearings with two charges: that Cuba has stepped up direct intervention into the Caribbean and particularly Central America, funneling arms to Salvadorean insurgents through Honduras; and that the ultimate aim of Cuba and the Soviet Union is to create an "arc of crisis" targetting Mexico's southern oil fields, the strategic prize of the entire region.

The day after this testimony was leaked to the international press, a choleric Mexican Foreign Minister Jorge Castañeda convened a special two-hour press conference to refute the Carter Administration line. "It's pure idiocy to think that the Soviet Union and Cuba are intervening in the problems of Latin America to take control of Mexican oil, as U.S. military strategists are thinking," he responded. In an unusually direct criticism of a high American official, he stated that he "disagreed with Vance's view" that Cuba was "directly intervening" into Latin America. Secretary of State Cyrus Vance had made the charge at Senate Foreign Relations hearings March 25. Two days later Mexican Defense Minister Felix Galvan López arrived in Havana for a two day visit which was subsequently extended another day.

Behind this exchange lies a spreading conviction in Mexico, other areas of Latin America, and policy and business circles in the U.S. that Administration policy is not one of *avoiding* an "arc of crisis" right on our southern flank but of *creating* one. Recalling the roles of Henry Kissinger and National Security Advisor Zbigniew Brzezinsky in bringing Khomeini to power in Iran, these circles argue that the goal of such crazed geopolitical gambling is to bring the combined Central America-Caribbean region to an Iran-style "chaos threshold value" where major direct U.S. intervention would become politically feasible. A feature of this strategy is to destabilize Mexico through violence on its southern border.

From the viewpoint of Carter's advisors, the destabilization of Mexico is essential both to prevent a link-up between Mexico and Washington's perceived economic adversaries of France, West Germany and Japan, and to take control of Mexico's sizable oil deposits.

Washington is especially concerned about President Lopez Portillo's upcoming trip to France and West Germany (see Dateline Mexico column this issue).

Is it true?

How much truth is there to this perception? The evidence is disquieting.

• The administration does not seriously believe that "Cuban intervention" is the guiding force of events now unfolding, even less that "Mexican oil" is the ultimate Cuban objective. An informed source at the New York Council on Foreign Relations stated the new ballyhoo was "nonsense," designed merely to "create a climate and enough back-up for a U.S. military intervention." This estimate is widely echoed in even conservative think-tank circles, who term the scenario "far-fetched."

Regardless, Administration spokesman continue to charge Cuba with responsibility for destabilizing the area, while simultaneously announcing stepped-up U.S. "vigilance." In early April, for instance, the U.S. deployed high-speed missile-bearing ships to patrol the Caribbean and to contain Cuban "expansionism."

• The possibility of unilateral U.S. moves to heat up the area is heightened by Carter's increasingly desperate re-election bid. James Reston identified this desperation factor in a March 28 New York Times column: To "release the political tensions around the administration... Carter is under great temptation to take dramatic action and to raise the level of international crisis, for the greater the threat abroad, the more likely he is to be supported at home." The CFR source emphasized the same point: far from the election campaign dampening the chances of U.S. intervention, "it is now more realistic than ever before."

• The Washington-spun scenarios of how Mexico will get embroiled in the Central American vortex are reaching new heights of detail and sophistication, involving the Mexico-Guatemalan border areas, the Indian populations of the region, rural guerrillas, domino effects spun off events further south in the "arc of crisis" etc.

• Perhaps most worrisome of all, there is ample evidence that the U.S. is deliberately fomenting the process of Iranization in the region. This process, involving a meshing of political destabilization with the most backward of religious beliefs and practices, was propelled giant steps forward with the assassination of Archbishop Romero in El Salvador March 23 and the carnage of the Palm Sunday memorial services a week later.

Key in this regard is the record of what America's diplomatic staff is doing "on-the-scene" in El Salvador. First, U.S. ambassador Robert E. White, only in the country a few weeks, lashed into the Salvadorean business community for sponsoring "hit squad" killings of political opponents including Archbishop Romero, in a speech to the San Salvador American Chamber of Commerce. According to a Wall Street Journal report, a leading businessman immediately charged that the White statements "have made me a target for everyone."

Four days later, after the Palm Sunday massacre, Ambassador White with equal surety charged the left with responsibility for the new killings. These statements drew the wrath of the Church and the left.

Here was the spectacle of the U.S. ambassador personally handing out public verdicts of blame in an incendiary and confused situation within hours of events which rocked the entire region.

Documentation

'Mexico is susceptible to destabilization'

The Council on Interamerican Security, a Washington pressure group with connections to Georgetown University, has launched a propaganda campaign around the theme that Cuban involvement in Central America is aimed at acquiring Mexico's oil. The council, which has connections to the Jesuit Georgetown University circles of Henry Kissinger, carried out a similar strenuous lobbying effort one year ago for American intervention in Nicaragua to save since-ousted dictator Anastasio Somoza.

The council argues that the United States is the rightful controller of Mexico's oil, and that the biggest obstacle to American control is Mexico's strong, nationalist traditions and political stability.

A CIS spokesman recently offered the following scenario for events leading to an American military occupation of Mexican oil fields.

Q: U.S. government officials charge that Cuba and the Soviet Union are heating up Central America into an "arc of crisis" with the strategic goal of controlling Mexico's oil resources. Is this your own evaluation?

A: That is in total conformity with our reading of the situation. Mexican oil has to be viewed as the strategic objective in Central America ... I'm very pleased the

A Palm Sunday massacre in El Salvador

With the Pope's personal emissary in attendance, the funeral of slain Archbishop Oscar Romero in El Salvador on Palm Sunday was turned into a massacre that will have the effect of bringing "theology of liberation" psychosis into dominance throughout Latin America. Professional snipers, like those who gunned down the archbishop a week earlier as he delivered communion in the church, fired into the crowd from rooftop positions, setting off panic among the over 100,000 gathered for the memorial service. The toll: 50 dead, 200 wounded.

The Pope has now sent two messages to the region eulogizing the work of liberationist priest Romero, as part of a broad swing of the Church behind the previously minority liberationist faction.

And in Mexico, where the Church is historically a highly conservative force, the events in El Salvador have resulted in a fanatical "Christian Marxist" realignment. On April 3, a procession to the most popular of Mexican cult shrines, the Basilica of Guadalupe, was led by none other than the Mexican Communist Party, a gaggle of Maoist gangs, and liberationist priests! They chanted slogans: "Guadalupe, your people will be victorious," and "Romero, Romero, you are here among us."

The "liberationists" are exploiting the martyrdom of priests to play on the underdevelopment and ignorance of the peasant masses in Latin America to promote pseudoreligious mass psychosis. The conversion of Romero himself, previously a conservative, to the liberationist cause was triggered two years ago by the killing of one of his parish priests.

government agrees. This is a warning that we've been making for a year.

Q: How would U.S. counteraction actually work?
A: What you're talking about is this. You have a substantial Mayan Indian population in Chiapas [one of Mexico's oil-producing states, on its southern border—ed.]. You have ethnically the same people you have across the border in Guatemala. Historically, Guatemala laid claim to portions of what is now Chiapas and, I believe, possibly also Yucatan. So one can very easily conceive of a scenario whereby a communist government in Guatemala would support a so-called national liberation struggle inside Chiapas, and also Yucatan. We know that Chiapas and Yucatan have some of the most serious rural guerrilla problems in Mexico. So this would be a scenario that would be very susceptible to destabilization.

Q: And that goes right into the...
A: ... oilfields. So you have a situation there which reads like this: The United States is isolated from Middle Eastern oil in a period of military hostility and we turn to Mexico for additional supplies, and the terrorists make it quite clear to Pemex that if supplies are increased or even continued to the United States or to Europe as a replacement for Middle Eastern oil, the oil goes up in flames.

Q: And then what do we do? Intervene?
A: Exactly.

'Carter's response could be incompetent'

Among some Reagan advisers, there is concern that direct U.S. intervention into Central America and the Caribbean, which they support, would be bungled by Carter. They want to wait until their man gets into the White House. The American Enterprise Institute's senior Latin American analyst, Pedro Sanjuan, delivered the following evaluation in conversation with EIR *this week:*

I'm not one who believes that the situation is going in the direction it is primarily because of the Cubans. Now, it's of course alarming that the Cubans are in there, and even one penny of Cuban aid would be excessive, but the basic problem is the bungling of the United States, of the Carter administration....

You know, if you wanted to be facetious about it, you could think that the course of events leading to a threat to Mexico was planned in the United States.

It will be a different ball-game if we get Carter out. Then we can strengthen the sensible forces down there. The situation is eminently reversible.

Mr. Sanjuan was asked if he saw a danger of Mr. Carter undertaking a major foreign policy adventure to improve his political fortunes at home. He replied:

What I agree with is that if El Salvador gets to the point where it really embarrasses the U.S., then the President could turn around and order some kind of incompetent and dangerous response. I've been telling the liberals, it's much better to do this kind of thing with a tough guy who's sure of himself, in a different administration.

Guatemalans seeking 'hot pursuit' into Mexico

A senior U.S. military commander, recently retired, talked at length with Guatemalan military counterparts in a December, 1979, visit to Guatemala City. His impressions:

I would say that the Guatemalans view the border situation [with Mexico] as serious. They feel they are not getting full cooperation from the Mexican government. The [Guatemalan] terrorists appear to be using Mexico as a sanctuary. The government hopes to get the Mexican government more concerned about it, because ultimately this will affect Mexico as well as Guatemala. At the time the Guatemalan armed forces recognized they had a problem, there was talk about the possibility of using hot pursuit to go over the border. The Americans did it to Pancho Villa. They hoped they'd be able to work out some agreement with the Mexican government where they'd get a cooperative military commander on the other side and would plan straight operations against the guerrillas.

Asked about the possibility of the Guatemalan military threatening Mexico's oil fields in order to force Mexico to back away from providing asylum to the guerrillas:

Ah, well, we talked *around* that. It was the sense that the Guatemalans have their close interest in that Mexican oil, because of the proximity, that they *might* go in there.

France-Cuba talks alarm Washington

The same week Carter Administration officials announced that new high-speed missile-launching patrol boats would begin cruising the Caribbean in a revived version of "gun-boat diplomacy," France's Deputy Foreign Minister Olivier Stirn held successful talks with Cuban President Fidel Castro at a special meeting in Havana. Significant economic deals and the "possibility of systematic collaboration" between France and Cuba "on the questions of development, maintaining peace, and bilateral collaboration" were at the center of the two-hour meeting, according to the final communique issued March 27th. Africa, Pakistan and the Nonaligned Movement were among the topics.

The official reason for Stirn's visit was to head the French delegation to the Fifth Annual Meeting of the French-Cuban Trade Commission, but most analysts agree that Stirn was sent to cool-out growing tension between the two countries.

Spokesmen for the U.S. State Department, even prior to Stirn's arrival in Havana, had expressed concern that he might succeed. The United States government was apparently very pleased by the development of tensions in relations between France and Cuba; at least one French political figure made accusations that implied that the U.S. Carter administration was actually engaged in fomenting those tensions. Naturally, State Department officials did not welcome the advent of talks to resolve those problems.

The focus of Franco-Cuban tensions were French possessions in the Caribbean. Talk of Cuban support for "independence movements" in the French colonies of Martinique and Guadeloupe was highlighted in the press, spurred by a statement from the French Minister for the Overseas Departments, Paul Dijoud, accusing Cuba of exactly that several weeks ago.

Havana domestic TV responded angrily to Dijoud's statements, demanding Giscard clarify if this meant France was joining Washington in its virulent anti-Cuban campaign. The program did note, however, that Dijoud had been reprimanded by Giscard before for mishandling African policy.

Stirn's trip cut short that talk of crisis. Castro told Stirn that Cuba "had not and would not" intervene in the internal affairs of France (referring to the islands), and praised France's "independent" policy in the international arena, according to French daily *Le Monde.* More than that, Stirn and Fidel spoke of "systematic collaboration."

Perhaps the most important area where "collaboration" between France and Cuba could have a significant impact is Africa, where both countries play a prominent role.

Fifteen new economic projects were outlined, including granting French companies exploration rights for gold, zinc, lead, and other metals, the extension of a $15.6 million credit for agricultural imports, construction of a hydroelectric plant, and a French tourist center on the famous Varadero Beach. The French state-owned oil company, Elf Aquitaine was granted exploration and exploitation rights for off-shore oil near Cuba. Four previously agreed-on projects, sitting on the back burner due to Cuban financial difficulties, were reaffirmed—from a specialty steel plant to a fertilizer complex.

U.S. State Department officials expressed special concern over Stirn's visit to Cuba before he arrived, "watching" for the French to offer major credits to Cuba which would relieve its severe currency shortage. Encouraged by Dijoud's statements, since it indicated trouble was brewing between the two countries, they noted they still did not know whether Dijoud represented official policy. "We'll see what happens to French policy when *their* domestic interests are threatened," commented the official. What did he mean?

According to denunciations made by a leading Gaullist deputy earlier this year, it appears that American officials are actually fomenting trouble in the French islands! RPR deputy Julia twice stood up in Parliament to accuse the U.S. consul in Martinique, Harold T. Robinson, of financing the independence movements on the islands, including a number of public festivals for these organizations!

The current U.S. policy of "surrounding" Cuba militarily and economically while supporting every dissident network on the island and publicly threatening a naval blockade or even invasion (!) is designed to throw the Cubans into frantic efforts to build up their "radical" allies! Cuba has shown before that it can be *provoked* into "radical" activity in the region.

Ironically, the French offer of economic collaboration and regular channels of discussions may be the only thing heading off the spread of "radicalism" throughout the Caribbean that the U.S. administration fears in public, and supports in private.

Dateline Mexico by Josefina Menendez

More oil for Japan?

One of the leading nations to agree to Mexico's proposals that technology is a proper means of payment may soon have its energy problems alleviated.

It is a busy spring diplomatically in Mexico. With the government's March 18 decision to raise its oil production levels by a minimum of 10 percent, the long-standing interest of a number of potential customers in lining up increased deliveries of Mexican crude has once again taken off. And the highlights of the Mexican diplomatic agenda give a good idea of the scope of the negotiations.

March 29: Julio Rodolfo Moctezuma Cid, Mexico's Coordinator of Special Development Projects, traveled to Paris to prepare President Lopez Portillo's forthcoming trip there.

March 30: Toshio Doko, the President of Japan's business federation Keidanren, arrived in Mexico City to discuss increased oil deliveries.

March 31: U.S. Energy Secretary Charles Duncan came to Mexico to discuss energy matters, in particular Mexican natural gas deliveries to the U.S.

April 1: U.S. Special Ambassador for Mexico Robert Krueger and Assistant Secretary of State for Inter-American Affairs, William Bowdler, held a day's meeting in Mexico City with the Mexican President and two of his ministers. The subjects discussed were natural gas and the El Salvador crisis.

April 7: On approximately this date Mexican Industry Minister Andres De Oteyza will travel to India and then Japan.

Mid April: Japan will receive Mrs. Lopez Portillo and Mexico City Mayor, Hank Gonzalez.

May 1: Japanese Prime Miniiter Masayoshi Ohira will visit Mexico, after having stopped off first in Washington, D.C.

Late May: President Lopez Portillo will tour France, West Germany, Sweden, and Canada.

Who, if anybody, will receive increased Mexican oil shipments?

One well-informed Mexican source noted that there are few remaining question marks regarding two of the three countries involved in the above diplomacy. Mexico is known to be unresponsive to the American desire to, in the words of a recent Department of Energy memo, establish "a more permanent price relationship" regarding Mexican natural gas. Mexico will *not* grant the U.S. a guaranteed fixed price for future deliveries of gas, and will stick to its escalator clause in all contracts. And regarding France, Mexico is on record as being favorably disposed toward Giscard d'Estaing's independent policy stance vis-à-vis Washington, and has already initiated a number of significant joint ventures with that country.

But Japan remains a question mark in Mexican thinking. Mr. Doko did all the appropriate things during his Mexico stay, assuring his Mexican hosts that Japan wants to help Mexico develop, while reiterating Japan's desire to receive more than the 100,000 bpd of oil so far agreed to. And simultaneously with his trip, the Director General for Latin America and Caribbean Affairs in Japan's Foreign Ministry, Mr. Tadashi Ohtaka, told the Mexican daily *Universal* that "Japan will not invest with imperialist designs" in Mexico, but is instead "respectful in every country. Besides," Ohtaka added, "it should be clear to all Mexicans that we will not even indicate in which areas we will invest, but rather will submit to what they suggest. That is, we will complement them where they need capital to develop."

But high-level Mexican officials are expressing concern that, despite these statements of good intentions, Prime Minister Ohira is thinking on different lines. These officials expressed dismay to learn that Mr. Ohira plans to travel to Washington, D.C. *before* setting foot in Mexico.

Mr. Ohira will also not ingratiate himself with his Mexican hosts with his "Rim Pacific Project" proposal. A Japanese government official stationed in Mexico told *EIR* that Ohira's idea is to pull Mexico and Canada into an alliance with other Pacific nations (such as Japan) on energy matters. It is likely that the Mexican government will view this initiative as a barely disguised modification of the hated Energy Common Market proposal which the U.S. has consistently tried to encourage Mexico to accept.

On the record, President Lopez Portillo has told the press that "we would like this proposal to be made more precise" before commenting on it. Off the record, Mexicans will be wondering if Ohira didn't pick the idea up along the way in Washington.

The Iran-Libya connection

A trip by Iran's "blood judge" revealed that a new phase of cooperation between Mideast extremists has begun, with European policy a target as much as Arab stability.

The visit to Libya this week of Iran's Ayatollah Khalkhali signals a new phase in the cooperation between Muslim extremists in the Arab world and those in Iran's Islamic Republic. It bodes ill, in particular, for Saudi Arabia and Iraq, virtually the only two OPEC members still committed to increasing production and exports, who are threatened by terrorists backed by Iran and Libya.

Ayatollah Khalkhali, widely known as the "blood judge" who was responsible for over 600 summary executions since last year, is the head of the Muslim Brotherhood in Iran, the Fedayeen-e Islam. Though he holds no official post, he wields enormous power by controlling the inner leadership of the Muslim Brothers. He is a sadistic madman, once interned in a psychiatric ward for killing cats by torture, and a virulent homosexual.

His visit to Libya marks a sudden closening of relations between these two nations, after a year of estrangement. A kidnapping of a Lebanese Shiite leader by Libya's secret police in 1978 caused friction between Libya and Iran's Shiite leaders, but during this week's visit to Tripoli Khalkhali absolved the Libyans of all responsibility for that kidnapping.

To understand the significance of Khalkhali's trip, it is first necessary to understand the agency behind the behavior of the erratic Libyan Col. Muammar Qaddafi.

In recent weeks, Qaddafi has launched a crusade against France in the Middle East and Africa. After sponsoring armed Muslim fundamentalists insurrections in Algeria and Tunisia earlier this year when those two nations began to improve their ties to Paris, Qaddafi then publicly threatened to kill French President Giscard d'Estaing on the eve of his arrival in the Persian Gulf. Only weeks before, Giscard's confidante and Africa policy adviser René de Journiac, was killed in a plane crash in West Africa that was blamed on Libyan intelligence.

Now, Libya has intensified its activities in West Africa by fueling civil war in Chad, a crisis that threatened to spread across all of West Africa and severly set back French diplomacy there.

Meanwhile, according to Iranian sources, the Teheran regime has launched a massive diplomatic and terrorist campaign against France. In the Gulf, Iran is putting pressure on the Arab oil-producing regimes, including by overt threats to provoke insurgencies by pro-Iranian fanatics. In North Africa, Iran is also lobbying against France—in direct coordination with Libya.

For instance, Iran's Oil Minister Moinfar paid a quick visit to Libya in an effort designed to coordinate pressure on other OPEC countries to cut back oil production. Both Libya and Iran threatened Saudi Arabia, which announced its intention to maintain high production through 1980.

So the question remains: who stands to gain? The answer, it appears: the enemies of Giscard.

That leads us in several directions.

First, the key to Libya's Qaddafi reportedly is M. Roger Garaudy, a former member of the French Communist Party who was expelled years ago for advocating a "Marxist-Christian dialogue." Presently, Garaudy is a close adviser to Qaddafi, perhaps even Qaddafi's controller. His links to Qaddafi were exposed in a recent issue of *Jeune Afrique*, a French-language magazine close to Tunisian circles.

Garaudy is now the candidate for president of France of the new ecologist party, and is a bitter opponent of Giscard d'Estaing. In France, he is associated with the old French aristocratic circles led by the Society of Jesus.

Second, Garaudy and his associates are supporters of two Italian based networks relevant to the Libya-Iran connection: the Lelio Basso Foundation, which has sponsored both Libyan and Iranian Muslim fundamentalist projects for years, and the Vatican's own "Muslim-Christian dialogue."

What is certain is that the Paris circles associated with Garaudy are exactly the same circles that produced Bani-Sadr, Foreign Minister Ghotbzadeh, and other leading Iranian officials during their long period of exile in Paris, at the Sorbonne and the National Center for Scientific Research in Paris.

International Intelligence

EUROPE

Schmidt refuses concessions to Great Britain

West German Chancellor Helmut Schmidt refused to "mediate" Great Britain's dispute with the rest of the European Economic Community (EEC) in his talks with British Prime Minister Margaret Thatcher outside London March 27-28, Thatcher had hoped that Schmidt would deliver concessions to British demands for a reduced contribution to the EEC budget.

Instead, the Chancellor made clear that West Germany's relations with France are more important than anything Britain can offer, and demanded that Thatcher accept a "global arrangement" for European cooperation if it expects concessions on the budget issue. The London *Times* commented March 28, "Germany's real and close ties of friendship with France—more important to Bonn than its good relations with Britain—are the main reason why the leader of the Community's richest country cannot come to the rescue in the way that Britain, and perhaps he himself, would like."

Schmidt told Thatcher that a package deal will have to be worked out that would include a joint Community energy policy, devaluation of the pound sterling (which Schmidt sees as overvalued due to international speculation on Britain's North Sea Oil), and agreements on fisheries, lamb exports, and other dispute issues.

The next round in the EEC talks is expected to take place at the end of April, and Britain finds itself in a poor bargaining position. European Commission President Roy Jenkins tried to pave the way for a cosmetic compromise, in a statement April 11. He claimed that the gap between Britain's demands and those of the rest of the Common Market is quite small, no more than "the equivalent of some two weeks' expenditure on the Common Agricultural Policy," or about £230 million. The real disparity, as the British press quickly pointed out, is closer to £1,000 million.

Le Figaro *assails Volcker policy*

In an April 2 editorial entitled "The Dollar's Revenge," the French daily *Le Figaro* warned Federal Reserve chairman Paul Volcker "not to lose sight of the global consequence" of sky-high U.S. interest rates which have drained capital from European markets and pushed the dollar up sharply against the major European and Japanese currencies. *Le Figaro* estimates that France must pay an additional ten billion francs this year for oil for each ten percent jump of the dollar on foreign exchange markets.

"But the situation for the developing sector countries is even more difficult and sometimes more dramatic. Not only must most of them, like us, sustain increases in their oil bills, but they are borrowing enormous masses of dollars to cover their deficits. These loans are being made at floating rates, and the increase of American rates from 5 percent two years ago to 20 percent today creates serious problems in the servicing of their debts.

"And this is a problem which concerns the entirety of the Western world. What would happen if the large debtors were to default? In New York, the rumor is going around that certain banks that have made long-term loans at low interest rates and are borrowing short-term at high interest rates are on the verge of bankruptcy. Last Thursday, the leaders of one of these banks went to the Federal Reserve to complain about their situation, and were treated to a deaf ear."

Latin America

2nd International endorses terror

Leading spokesmen for the Socialist International have publicly voiced support for terrorism in Central America, under the guise that this is a legitimate and "revolutionary" response to "institutional violence."

While attending the Conference on Latin America and the Caribbean held in Santo Domingo this week, Socialist International Secretary General Bernt Carlsson of Sweden stated that "it is false that the Socialist International is a pacifist organization...when institutional violence threatens to impose slavery, then we will not permit it; rather we will also encourage popular armed resistence." Joined by German ex-chancellor Willy Brandt, and Mario Soares of Portugal, Carlson praised the Jesuit-backed "revolutionary" movement of El Salvador which seeks to reproduce in Central America the horrors of the so-called "Iranian Revolution."

Colombia's pro-drug lobby to submit legalization bill

According to the Colombia daily *El Tiempo* of March 27, a bill "to legalize the production of marijuana" sponsored by Senate president Hector Echeverri Correa and promoted by the National Association of Financial Institutions (ANDI), will shortly be submitted to the Colombian Congress for approval and implementation.

The submission of the bill follows a recent decision by Defense Minister Camacho Leyva to withdraw thousands of special anti-drug troops that have been stationed in the mafia-infested Guajira

Peninsula which has been one of the major sources of marijuana production and export into the U.S. The withdrawal of the troops, purportedly to remove army personnel from a "dangerous source of corruption," was hailed by ANDI president Ernesto Samper Pizano as "de facto legalization" and "the smartest move the government has ever made." Samper had previously declared that the decision to submit a legalization bill to Congress would rest on its being a guaranteed passage.

Reached for comment on this latest pro-legalization initiative from Colombian circles, a spokeswoman for the International Narcotics Division of the State Department warned that it was necessary to look "below the surface at the motivations of these people...some may have their kids on drugs, others may be making money off the sale of marijuana."

Middle East

Muslim Brotherhood terror targets Iraq, Syria

Muslim Brotherhood-sponsored violence and terror continue to escalate sharply in the Middle East, with Syria and Iraq the prime targets.

Last week in Iraq, Prime Minister Tariq Aziz narrowly escaped death when a member of Iran's Fedayeen-i Islam deployed by Muslim Brotherhood sponsor Ayatollah Khalkhali (known in Iran as the "Blood Judge" for sentencing thousands to death) threw a grenade at him while he was speaking at a public meeting at a Baghdad university.

Iraq has bitterly denounced the Muslim Brotherhood attack as coming from the "backward and rotten enemies of mankind."

Iraqi President Saddam Hussein personally vowed that the plot against Aziz, one of his closest associates, "will not go unavenged."

According to the Indian press, Saddam Hussein himself was the target of an assassination attempt in late March when his plane was blown up minutes before he was due to leave on a visit to the Iraqi oil city of Kirkuk.

In Syria, heavy fighting, instigated by armed assaults by Brotherhood adherents hostile to the Assad regime and committed to the destruction of Syria's national unity, is rocking the country, threatening to topple Assad. The Brotherhood opration to destroy Syria and Iraq is being underwritten by both Iran and Libya.

Asia

Japanese to Carter: 'no thanks'

The Japanese goverment has issued a firm rebuff to Carter administration demands for stepped up defense spending and other measures aimed at toughening the country's stance against the Soviet Union, according to reports in the daily *Yomiuri.*

According to the *Yomiuri*, Japanese foreign ministry officials responded to Brzezinski's urgings for a tough line against the Soviets with the comment "Japan has been watching West Europe's actions toward the Soviet Union and has been keeping pace. ...The U.S. should show understanding for the special relations between Japan and the Soviet Union." The Japanese government of Prime Minister Ohira had previously been considered one of the most loyal allies of the Carter administration.

The *Yomiuri* article concludes with a call for Japan not to implement large-scale defense spending, to step-up economic ties with the Middle East independent of the U.S. and to follow a European line on relations with the Soviet Union.

Briefly

● **FRANCESCO COSSIGA,** the Italian caretaker head of state who is attempting to form a new government, submitted a list of prospective ministers to the Italian parliament Apr. 3 that gives nine government posts to members of the Italian Socialist Party. EIR investigators have linked most of the individuals to drug-running, asassinations, and generally to the Jesuit Order and "black nobility" of Rome led by the Princess Pallavicini. Proposed defense minister Lagorio, for example, is linked to the Permindex organization expelled from Switzerland in the 1960s for attempts on the life of Charles de Gaulle.

● **AMERICAN SCIENTISTS** want a crash "Apollo style" program for the development of fusion energy, is the message that former French minister Michel Poniatowski brought back to Europe from a trip here in mid-March. He visited many American research labs. Daniel Seguin, who accompanied Poniatowsky, reports in *Le Figaro* that one U.S. scientist stated, 'To get the necessary funding it would take either a war or a new president." The ex-Minister, who is very close to President Giscard, came back from his trip convinced that more than ever France must pursue its ambitious nuclear program.

● **LEONID BREZHNEV,** the Soviet President, warned on Soviet television that in light of increasing international tensions, the U.S.S.R. would have to "keep our powder dry." Addressing high-ranking Soviet officials March 31 after receiving the Lenin prize for his memoirs, Brezhnev said: "The existing international situation, particularly the facts of recent times, prompt us to keep our powder dry, to be determined and consistent in upholding the cause of peace."

New York transit strike: 'Ordered from on high'

by L. Wolfe

As we go to press, New York City is convulsed with a crippling transit strike that has shut down subway and bus service to over 5 million riders. For two days last week, the Long Island Railroad, carrying more than 200,000 people a day into the city, was also on strike. Bridge and tunnel collectors are threatening job actions which could paralyze already heavily congested automobile traffic, making a bad situation absolutely chaotic.

New York's news media have blamed the unions. But in fact, the strike was ordered from a level higher than the White House, for example, Trilateral Commission spokesman David Rockefeller, with the directive to "take a strike" coming down to Mayor Koch from none other than Paul Volker, the advocate of "controlled disintegration" heading the Federal Reserve. What is now happening in New York is part of a national economic plan.

The *New York Times, New York Post* and other media, who are well aware of this, treat their readers to accusations against the 31,000 member Transport Workers Union and smaller Amalgamated Tranist Workers, calling them "overpaid," "inefficient" and incapable of "understanding the city's financial plight." The unions are "blackmailers," says the *Times*, who backed the Metropolitan Transportation Authority into a corner and then went on strike. "Take to the transit barricades" against labor, they urge city residents.

'Take a strike'

What's the truth? Sources in Washington report that Federal Reserve chairman Paul Volcker, before the strike last week, let it be known to a small circle of people that the city administration of Edward Koch should "take a strike." Volcker reportedly said that New York is an ideal place to set a "national example," demonstrating "a will to resist municipal unionism and a will to live within our means... It would be good for the rest of the economy."

Good? The best available estimates say that a city transit strike means approximately $200 million per day in lost revenues, plus an additional figure in that range in disrupted activity on New York's financial markets. A 12-day strike in 1966 cost the city $1.76 billion in lost revenues alone.

In short, a New York transit strike will take a huge chunk out of total daily economic activity in the United States. If it continues long enough—under present economic conditions—it could trigger a national rececssion, a point made last week by veteran labor mediator Theodore Kheel.

But David Rockefeller, outgoing chairman of Chase Manhattan Bank, said last week that he feels a recession would be *good* for the country. Rockefeller relieved himself while attending the Trilateral Commission meeting in London. He came back to New York on the eve of the April 1 contract expiration, and told the New York Chamber of Commerce that the city should "take a strike."

The transit system is New York's lifeline. Felix Rohatyn now talks of a "new reality" demanding massive cuts in the system. Not only a 75-cent fare—a token now costs 50 cents—but there is talk of "getting around to eliminating all night service," and closing subway stations selectively to "kill" certain areas of the city. One source doubts that anyone will be able to get in or out of the South Bronx in the near future.

Mayor Koch recently spent time behind the bamboo curtain. He firmly believes New York should "become more like Peking." There should be less of everything—except bicycles. Admittedly in a city with a growing population of homosexuals and perverse entertainments, Koch is a bit stranger than your average mayor. But the "China model" is more than his whim.

The side of the Chinese peasantry Rep. Henry Reuss has in mind right now is the docility and amoral acceptance of destruction and death. "The country needs an example of sacrifice, what Felix Rohatyn calls the 'pain and agony'," said one of Reuss's aides at the House Banking Committee. "New York, like the country, is on the razor's edge. A major crisis is needed to get the population ready to accept the next level of austerity. It would have to be a *universal* crisis, one that effects everybody. It must demonstrate once and for all time that the city can't survive the way it is. That it will have to shrink. A transit strike fits this. It is what the city and the country needs."

British intelligence protégé Rupert Murdoch, publisher of the *New York Post*, hired psychiatrists to roam the streets and monitor the progress of psychological deterioration. The psychiatrists reported back that, indeed, New Yorkers are being acclimatized to "disasters." One even reported that residents "could handle themselves well in a nuclear war"; they would "die with dignity."

Washington is only watching the city's plight for now, but the Federal Emergency Management Agency, sources say, may decide the entire city should be declared a disaster area. At their cue, President Carter would declare it so, and they could move in to the city martial-law fashion. But first, the plan is to "let the chaos build."

"I know that this whole thing could be settled if we could get down to real bargaining," a transit union source said. "But right now, someone big is gumming things up."

Said Rockefeller: "The transit strike would have serious consequences for the city, including business and particularly retail establishments. However, the long range damage of an unaffordable labor settlement could be even greater than the painful shortrange consequences of the strike."

Rockefeller is lying. But he announced he had the assurance of key members of the banking community and city business community to back Koch and the MTA against the unions' "unreasonable demands." Also last week, Senator William Proxmire (D-Wi) told the city not to count on any more money from Congress if it "knuckled under" to the trade unions. Felix Rohatyn, Lazard Freres partner heading the City's Municipal Assistance Corporation (MAC) and controlling city fiscal policy for its creditors, gave the same advice publicly and privately. These gentlemen actually dominated the city transit negotiations from boardrooms and conference halls in New York and London. They dictated the "get tough policy" of Koch and New York Gov. Hugh Carey.

It is agreed by city political insiders that it was technically possible for the city, state and MTA to come up with a contract package that would have been acceptable to the unions prior to the strike. These sources confirm that it was a *political* decision to force a strike. "No doubt about it," said a veteran city political insider. "This strike was ordered from on high."

The negotiations, which broke down in the wee hours of April 1, centered on the MTA's adamant refusal to agree to a 12 percent wage boost for each year of a two year contract, and demands for "give backs" from the unions. The union was seeking 30 percent over two years. Koch and Carey instructed the MTA that any wage increase will be funded by a commensurate increase in the transit fare and in service cuts. This posture defines all future city labor negotiations, said a source. Most city workers contracts expire by June 1. The transite strike could be only the first of many lock-outs.

The real policy

Two year ago, the *Economist*, magazine of City of London banking interests, published a survey on New York that proposed that the city go "the way of London," that is, cutback drastically on services in order to shrink from seven to less than five million people. New York should discourage every kind of industry except low-wage, labor-intensive light manufacturing, and restructure itself as a service-oriented home for a new elite. What New York needs is "gentrification," a population largely restricted to "a new gentry."

Only last week, a spokesman for the *Economist* said, "New York is being remade...it is going to be shrunk, millions of people, mostly poor, will be forced out. This is what happened in London. There were strikes and chaos, but such things accompany change. They help it along."

This policy even has a code name: "Planned Shrinkage." The mayor denies it publicly. But you can find dozens of city officials willing to confide that that is Koch administration policy. It is only the urban component of the "controlled disintegration" proposals of the New York Council on Foreign Relations (chairman, David Rockefeller). Paul Volcker lives and breathes this policy. This policy and the New York transit lock-out are the same policy.

Conferences and classes on "death education," especially for impressionable youth are planned by the Club of Rome to build Kubler-Ross death-cultism: Above, Minneapolis students are placed in a coffin one by one.

Club of Rome death cults

Killing the American dream

by Mark Burdman

Most Americans, had they attended the March 16-18 conference of the U.S. Association for the Club of Rome in Bethesda, Maryland, would have come away from the proceedings in stunned disbelief. In line with the global zero-growth efforts of the parent organization (the Club of Rome International), the focus of conference discussion was a campaign over the next few years to compel Americans to ideologically "adapt" to the "death of the American dream of material and technological progress." Accordingly, it was only the first in a series of such conventions scheduled for the United States in coming months and years.

In Club of Rome parlance, this is "The Great Transition." Club of Rome methods, outlined in horrific detail throughout the proceedings, are the same ones employed by ruling oligarchies since the time of the pharoahs. They intend to spread *cults,* in religious, satanic, environmentalist and death-worshipping varieties, endowing the population with "the means to cope" with the miseries and social chaos that will follow an impending American economic catastrophe.

The conference therefore went substantially beyond the limits-to-growth propaganda for which the Club of Rome organization is already internationally notorious. Organized around the theme, "The Human Side of the Energy Transition," speakers and participants were drawn from a broad spectrum of Episcopalian and Jesuit theologians, solar energy advocates, environmentalist collectives, consumer-action types, radical women's groups, political pollsters expert in American susceptibilities, and self-professed specialists in "death and dying."

The latter were the featured participants. The most pronounced and persistent reference point of the gathering was the death-cult idea of Elizabeth Kubler-Ross, leader of the "Death with Dignity" and Hospice movements, who reports without a blink that she spends a growing percentage of her time having illicit relations with the spirits of dead people at her Place-to-Die-in-Dignity Hospice in Escondido, California. The application to Americans, *en masse*, of Kubler-Ross's prescriptions for helping individuals cope with the grief of dying, was the Club of Rome's specific interest.

Speaker Larry Kagan of the prestigious Yankelovich, Skelly and White polling agency put it this way:

> There is social bereavement associated with the end of decades of booming industrial growth, the end of the days of America being the steelmaker and automaker of the world. As we move out of the industrial phase of society and into the information phase, the hope is that we can help people adapt to this new reality, just as Kubler-Ross helps people cope with dying.

What is the Club of Rome?

What is this agency, now deployed into the United States to brainwash a population that still has the most ingrained conviction about the necessity of progress of any people in the world?

The Club of Rome is a jointly managed thinktank of the European "black nobility" and the British aristocracy. It was created in the early 1960s, convening 100 financiers and others under the chairmanship of Italian banker Aurelio Peccei. Its purpose is to promote the ideas of the 18th century hoaxster Parson Thomas Malthus of the British East India Company, who proposed that the human race inevitably produces more people than the earth produces food, that nonfood-producing industry is unproductive, and that genocide and other measures facilitating population-reduction ought to be the central policy of governments. The Club of Rome organization currently plays a central role in a network of Malthusian organizations controlled by the same medievalist families, and engaged in a global cult-building campaign like that now outlined for the U.S.A.

Exemplary of this interface is the fact that current Club of Rome activities are centered around the forthcoming "Third Development Decade" conference of the United Nations Organization. The agenda and policy-papers for this "development" conference were all produced through the "Project on Futures" of the United Nations Institute for Training and Research (UNITAR), whose director is Irvin Laszlo, a Club of Rome policy-

Elizabeth Kubler-Ross in praise of child murder

A key focus of the Club of Rome's Bethesda, Maryland conference was the promotion of death-cults of the sort pioneered by Elizabeth Kubler-Ross. Two days after the conclusion of the conference, Kubler-Ross herself appeared in Washington to keynote the Fifth Annual Conference on Death and Dying, sponsored by the St. Frances Center, headed by Episcopal priest, William Wendt.

At one point in her address, the bizarre lady declared that it is altogether possible for *a young child to enjoy being murdered.* "When you have a violent, brutal kind of death, human beings have the ability to shed the physical body, temporarily most of the time, but permanently when the body is killed. When a child is murdered or raped, they instantly have an out-of-body experience so that they watch the scene of the crime from a distance without pain or anxiety."

Kubler-Ross was given a sensational promotional write-up in the March 22 *Washington Post.* The newspaper noted that she is a faithful believer in "afterlife, out-of-body experiences, reincarnation and an assortment of other bizarre, but essentially benign pronouncements," including the belief that "her knowledge comes from spiritual guides whom she met in material form."

In an interview after the conference, Rev. Wendt declared flatly, "Death is in. There is a doom boom in the United States. We are restoring the ownership over death to the American population. . .There will be a national conference on death and dying to expand the death-education process all over the country."

'Women's liberation' in Club of Rome style

One panel of the Club of Rome's Bethesda conference on cult-building was entitled "The Distinctive Contribution of Women in a Time of Transition," with themes that included "Psychic Flexibility and Women," and "Women as Lead Figures in Transition." As panel leaders emphasized, the point of Club of Rome efforts around "women's liberation" must be the exploitation of the women's sense of intellectual inferiority to men, the celebration of female "feelings" against male "reason."

The model for the effort is the Babylonian priesthood's Egyptian Cult of Isis and Osiris, the mother-cow goddess who castrated the bull god.

The perverse, cultish nature of the effort is revealed in a book written by Elizabeth Dodson Gray, the wife of Episcopalian priest David Dodson Gray, both of whom were conference speakers. The book "Why the Green Nigger: Re-Mything Genesis," contains one chapter under the heading, "Women as Bearer of a Different Consciousness." That chapter's subtitles include "A Biologically Conditioned Consciousness," "Anatomy-as-Destiny Frightens Us All," and "Woman, the Other Giver of Symbols." The emphasis throughout is that women's *nonrational* approach to problems is not only a product of their biological nature—women *are* inferior—but this must be promoted to undermine the scientific and technological progress associated with "men."

Hence, Elizabeth Dodson Gray's subtitle: *Re-Mything Genesis. The Book of Genesis* bid mankind to establish "dominion over nature" through scientific and technological progress. "Women's liberation" must destroy "the illusion of dominion."

Before attending the Bethesda Club of Rome conference, Elizabeth Dodson Gray attended a conference on "Land and Culture" in South Dakota. In her speech, she praised "The American Indian attitude" toward *land* as a welcome alternative to the American System attitude toward development of agriculture through industry (compare Malthusian population theory). She described Americans' commitment to progress as "a combination of the Judeo-Christian ethic of man having dominion over nature with the American *macho.*"

maker since its inception. Laszlo's UNITAR, in turn, provided the principal policy input into the "Project 1980s" studies of the New York Council on Foreign Relations. The outcome of that series of studies was the proposal to realize Club of Rome-UNITAR goals of "a new world order based on environmentalism" by effecting the "controlled disintegration" of the U.S. and other industrial economies, and the subordination of the U.S. and other nation-states to the rule of "one world," supranational institutions. Of course, it is to the consequences of this policy that the Club of Rome now proposes to help Americans "adapt" through cults.

Among the principal institutions collaborating with the Club of Rome at the March 16-18 conference was the Interreligious Peace Colloquium, (IRPC), a project of the Jesuits with Episcopalian participation. The Jesuits or *Societas Jesu* are the Hapsburg-centered "black" nobility's intelligence service, while the Episcopalians are the American branch of the Church of England, and the center of British intelligence influence in America. The IRPC was founded at a 1975 conference in Bellagio, Italy, one of whose sponsors was current U.S. Secretary of State Cyrus Vance. Vance, at the time, was serving as a coordinator of the CFR "Project 1980s" studies, and together with the Club of Rome's Daniel Yankelovich, the pollster, was establishing "The Publican Agenda Foundation" whose objective is to promote UNITAR-CFR-Club of Rome "definitions of the issues facing Americans."

A cursory glance at the membership roster of any of these organizations will additionally uncover a heavy personnel overlap with the Trilateral Commission, a CFR spin-off: the Bilderberg Society, an elite organization of the British and European medievalist families with selected American members; and British intelligence's U.S. based Aspen Institute.

Club of Rome goals

Club of Rome chairman Aurelio Peccei is not subtle about the organization's aims. At a press conference during the late 1970s, he lauded the cannibalism to which stranded mountain-climbers resorted—an example to be followed by whole populations in the face of scarce resources, he stated. Similarly, in the early 1970s, the Club of Rome sponsored the "Limits to Growth" computer-applications project of MIT professors Dennis Meadows and Jay Forrester, whose method was to program a "zero growth" axiom into their model, and then conclude that zero growth was necessary as a circular consequence of the axiom. Asked at a press conference if he was just a "neo-Malthusian" fraud, Meadows retorted, "I'm *not* a neo-Malthusian. I'm a *Malthusian*!"

In the mid-1970s, using the vehicle of Irvin Laszlo's UNITAR, in particular, the Club of Rome extended its efforts to the developing sector and even Eastern Europe, where Laszlo's "systems analysis" methods temporarily won adherents. Two relevants reports were produced, one the 1976 *Reshaping the International Order,* since known as the club's *Rio Report,* and Laszlo's 1977 *Goals for Mankind.* The substance of both was an emphasis on "appropriate technologies" (like sticks and cowdung) in the Third World nations and supranational control of economic policymaking and advanced technologies.

Through conferences based on these reports in Algiers and elsewhere, Peccei sought with some success to twist Third World aspirations for economic development into "demands" for "more equal distribution" of already existing wealth, undermining growth in the advanced sector and ensuring no-growth in the developing sector.

The attempt to coopt Third World policy planners led to a change in the Club of Rome's verbiage. Dropping "zero growth," which any backward nations' leaders immediately recognize as insane, the Club, UNITAR and allied agencies like the Aspen Institute introduced the terms "sustainable growth," "limited growth," "managed growth," "organic growth," and others. Whatever term is employed, the meaning is still "zero growth."

Similarly, the Club of Rome recently announced it would place more emphasis on the "informational aspect" or the "learning aspect" as opposed to the "economic aspect" of its program. Whatever term is employed, the meaning is the sort of mass-brainwashing, cult-building project outlined for the U.S.A. in the March 16-18 conference in Bethesda.

The Club of Rome established its "U.S. Association" in the 1976-77 period, with the cooperation of a handful of institutions like the Woodlands Conference in Houston, Texas, an Aspen Institute spin-off whose sponsors are oil-man George P. Mitchell and the Mitchell Energy and Development Corporation, which is currently funding research efforts into the best methods for selling Club of Rome cults and ideas to Americans. Highly elaborate profiling of American attitudes have been undertaken to locate those susceptibilities which will allow them to put the country through "The Great Transition." The basic tenet of the recent conference, in fact, was that the past decade's battering of the U.S. population by inflation, oil supply scares, drugs and the rock-and-roll counterculture has already weakened Americans' commitment to the idea of progress. Americans, reported the profilers, have come a certain distance, and are now in a "transition" to "new values."

The cults

The targetting strategies outlined by the conference to complete "The Great Transition" can be broken down as follows:

'A Khomeini type of Christian fundamentalism'

On the eve of its Bethesda conference, the Club of Rome's office in Washington received best wishes from one Jeremy Rifkin unable to attend. Rifkin is a fellow at the Washington, D.C. Institute for Policy Studies.

Extensive investigations by *EIR* over the past three years have established that, among other unsavory features of the Institute for Policy Studies, it has served as the "mother" institution for a variety of "radical" organizations in the United States and abroad, including many that constitute the backbone of the so-called "international terrorism" movement.

IPS was spun-out of the U.S. National Security Council by New York and London financier families to be a spawning ground for terrorists and other vehicles of selective international political destabilization.

Rifkin recently authored a book, "The Emerging Order: God in an Age of Scarcity." His thesis: A Khomeini-style "fundamentalist" revolt can be created in the United States to undermine scientific progress.

In an interview this week, Rifkin revealed that he has recently been factionalizing among leading American evangelical groups, with a total membership reaching to 60 million people, to end the hegemony of the "old-line Bible-belt conservatives" and to bring to the fore "younger types who want man to be more humble in respect to nature."

"There is a process developing here similar to what Khomeini did in Iran," he said. "The only difference is that Islamic fundamentalism is a reaction against the *introduction* of science and modernization, while the emerging American fundamentalism is a response to the *end* of science."

Rifkin said that he is "particularly interested in the charismatic movement. They are to American Roman Catholics what the liberation theology people (Jesuits-ed.) are to Latin American Roman Catholics .... We are transforming the way people understand the Book of Genesis's injunction for man to have dominion over nature. From now on, man can only have stewardship over nature—to be a part of it, not rule over it."

Death-cultism. Elizabeth Kubler-Ross's celebration of death must be adapted to broader social issues, with the goal of compelling Americans now enraged at economic breakdown to turn those feelings *inward* toward a *stoic* acceptance of "fate" and increasing fascination and obsession with dying and themes of death. To this end, national conferences are to be held on death and dying, and a "death-education process" is to be launched in schools, churches and other institutions nationally.

Women's "Liberation" Cultism. In the official conference perspectus, one theme identified was that of "new opportunities for participation and leadership by women ... drawing on the theory that, from a psychological and emotional viewpoint, women's perceptions and abilities are particularly well suited to coping with an age of transition in which there will be few neat, simple, or immediate solutions." Several conference panels focused on how women's sense of intellectual inferiority—science, technology and development are associated with "men"—can be exploited. Said one conference organizer, "women's groups, in particular as these merge into consumer action groups, will be a principal institution through which we will seek to concretize the Club of Rome's ideas in this society." The overtone of lesbian cultism was everpresent, as at least one speaker emphasized that women have a "biologically conditioned consciousness." Women can serve as a "giver of symbols" to the zero-growth society.

Fundamentalist cultism. "Church institutions will be vital in communicating the Club of Rome's ideas," say conference spokesmen. What must be undermined is the Book-of-Genesis injunction to mankind—"dominion over nature." The Judeo-Christian ethic "of man having dominion over nature is wrong," said one participant. Another speaker, Roy Anderson of All-State Insurance, a funder the U.S. Club of Rome organization, delivered a bitter attack on doctors for being "overly concerned with curing people," and then warmly praised "the religion of the American Indians" as an alternative to the "notion of dominion in the Judeo-Christian heritage." The Club of Rome objective is to pit religious fundamentalist cults against Americans' reverence for the power of science.

Environmentalist cultism. Episcopalian priest David Dodson Gray, whose wife Elizabeth Dodson Gray also addressed the conference (see box: "The Club of Rome's 'Female Liberation' ") told conference participants:

"Peccei is a man with great vision. He thinks that now is the time to bring the Club of Rome into the institutions and pores of American society. He thinks the antinuclear movement will help implement the Club of Rome's ideas on a mass scale. He sees in this movement a way of allying environmentalists with workers by capitalizing on workers' growing fears of industrially-caused disease and death."

He proposed that a *green death cult* be created, merging Kubler-Ross with environmentalism. "Many union people are now aware that the work-place is very hazardous for them, not just by bone-crushing accidents, but by long-term exposure in the work-place to chemicals or to ordinary materials like asbestos or vinyl flouride. Out of this awareness is being built a coalition between labor and environmental people over those issues that involve the health of the work environment. Workers feel that disease and death should not be among the occupational hazards, and an alliance with them is being built out of the antinuclear movement. The nuclear issue is being used by the environmental activists to reach out into working neighborhoods, and a new phenomenon is developing."

Documentation

Goodbye more, hello less

'Life after growth': an Episcopalian sermon

The following article entitled, "Goodbye More—Hello Less," was written by David Dodson Gray of the Bolton Institute for a Sustainable Future and was presented as an official document at the Club of Rome's Bethesda conference. Gray and his wife Elizabeth Dodson Gray, who is a "vice-chairperson" of the U.S. Association, were both trained at the Yale Divinity School and are both associated with MIT's Sloane School of Management. They were trained there by L. Carroll Wilson, an MIT "alternative energy" expert with long-standing involvement in the Anglo-American intelligence community who is now a member of the Trilateral Commission.

It is the purpose of David Dodson Gray and the Club of Rome to direct that rage of the American people inward against themselves. As he writes, the task is to assault Americans' belief in their right to make the human condition better, to progress, by convincing them that hellish conditions of zero-growth and economic collapse are inevitable. But more, Americans must be convinced that death and ruin are to be celebrated—that themes of catastrophe, death and dying are the very meaning of life. The very essence of the cult-ridden society America must become, in

What's the U.S. Club of Rome

The U.S. Association for the Club of Rome, based in Washington, D.C., was created as the official U.S. arm of the Club of Rome in 1976-1977. Its director, Donald Lesh, was a former staffer on the U.S. National Security Council under Henry Kissinger's aide Helmut Sonnenfeldt and William Hyland. In 1972, after leaving the NSC, Lesh joined up the Washington-based Potomac Associates, a thinktank which helped circulate the findings of the 1972 Club of Rome "Limits to Growth" study.

The U.S. club restricts itself to approximately 150 members, who are drawn from leading thinktanks, environmental-ecology groups, community activist organizations, and religious institutions associated largely with the Episcopalians and Jesuits.

In approach and in activity, it is kindred to the Aspen Institute for Humanistic Studies. Four of Aspen's leading lights—Joseph Slater, Robert O. Anderson (head of Atlantic Richfield), Harlan Cleveland, and Walter Orr Roberts—are members. Aspen is the controlling influence over an allied feeder-institution, the Houston, Texas Woodlands Conference.

The membership roster of the U.S. Association of the Club of Rome includes:

Philip Abelson, Editor, Science magazine; President, Carnegie Institute

Gerald C. Barney, Chairman, Environmental Agenda Task Force; former Director, National Programs, Rockefeller Brothers Fund.

Norman Cousins, Publisher, *Saturday Review.*

Richard Falk, Princeton University Professor of International Law; Director, Institute for World Order; advisor, Planetary Citizens; participant, Council on Foreign Relations' "Project 1980s."

James P. Grant, Executive-Director, UNICEF.

John A. Harris, IV, President, Zero Population Growth; Chairman, National Alliance for Optimal Parenthood; Chairman, USACR.

Frances F. Korten, Program Office, International Division, Ford Foundation.

Ervin Laszlo, Director, UNITAR.

Walter J. Levy, Council on Foreign Relations.

Amory Lovins, Friends of the Earth.

George McGhee, former U.S. ambassador to NATO, Germany, Turkey; member, Trilateral Commission.

Claiborne Pell, U.S. Senator.

Russell Peterson, former Chairman, Council on Environmental Quality; board member, USACR. Chairman, Audubon Society.

Carroll Wilson, MIT Workshop on Alternative Energy Strategies; member, Trilateral Commission.

Dennis Meadows, coauthor, "Limits to Growth.

Jay Forrester, coauthor, "Limits to Growth."

Thomas Berry, Riverdale Center for Religious Research; Chairman, U.S. branch of the Teilhard de Chardin Society.

Elizabeth and David Dodson Gray, co-directors of the Bolon Institute for a Sustainable Future. (Elizabeth is USACR vice-chairperson and heads the Theological Opportunities Center, Harvard Divinity School).

Philip Land, S.J., advisor, Washington-based Center of Concern.

William Ryan, S.J., Provincial Superior English-Canadian Jesuits, Toronto, Canda.

John Thomas Walker, Episcopal Bishop, Diocese of Washington; Dean, National Cathedral.

John J. Weaver, Episcopal Archdeacon for the Future of the Diocese of California; Dean Emeritus, St. Paul's Cathedral, Detroit.

Barbara Blum, Deputy Director, Environmental Protection Agency.

Anne W. Cheatham, Director, Congressional Clearinghouse for the Future.

Robert W. Crosby, Program Manager, Office of Systems Engineering, U.S. Department of Transportation.

Walter A. Hahn, Congressional Research Service Senior Specialist on Science, Technology, and Futures Research.

Frank M. Potter, Staff Director and Counsel, House Subcommittee on Energy and Power.

Douglas Ross, Senior Economist, Joint Economic Committee's Special Study on Economic Change, U.S. Congress.

Michaela· Walsh, Project Director, Technology for Local Development, U.S. Congressional Office of Technology Assessment.

Gray's view, is that its members will believe "there is life after growth."

Slowing growth invokes emotions of loss and impotence—impotence because we feel powerless to prevent the loss from taking place. We might find parallels between public morale now and what Dr. Elizabeth Kübler-Ross, in her recent book *On Death and Dying*, observed in individuals who were coping with loss of loved ones or with loss of their own lives. We in the United States in the 1970s were a people beginning to go through a similar process as we experienced the loss of our earlier rates of economic growth and all of the cultural values that growth provided....

We are shifting the center of meaning in our lives away from a past which is being lost and toward an unknown future. In the transition from unsustainable patterns of economic growth, our lives will have to center on satisfactions that have been secondary, or peripheral, or perhaps not even part of our experience....

We have not thought much about going down (not up), having less (not more), going slower (not faster), aging (not growing up), being (not achieving). In the past, transition has been something individuals went through alone, but a look back at the recent decade tells us that already our symbols and fantasies were turning to transition themes. The striking series of disaster films (*The Poseidon Adventure, Earthquake, Towering Inferno, Airport*, etc.) constituted a cultural anticipation of loss. Gerontology was a lively new field of study ... Grief seminars and seminars on death and dying were on the agendas of church conferences and popular courses in colleges. Meditation movements abounded.

Transition carries one to acceptance and we can prepare ourselves for it through symbols and fantasies which help....

In the transition, what is central is what happens to the morale of individuals, of institutions, and of our culture as a whole. Kübler-Ross writes of the importance of respecting and preserving "a thread of hope" throughout the grieving process. We need hope to find our way out of the maze, to pull ourselves through difficult tunnel-like transitions. We need hope to sustain us until we can again more clearly see our meaning and our way.

We soothed social conflict, in our growth phase, with the expectation that more growth would mean more for all. That hope no longer is plausible in the transition. Anew hope, a new expectation, must be shaped apart from the opiate of growth....

Within the Church, pastors must attempt to locate public moods and behaviors upon the landscape of the human spirit and point out the potential for coping with loss. Our goals and values matter even more now as we begin to think the heretofore unthinkable—about life after growth.

Documentation

The Aspen Institute on 'The Great Transition'

The ideology of the Club of Rome's "Great Transition" plan for America was presented by Harlan Cleveland of the Aspen Institute, a former U.S. ambassador to NATO, in a speech before the Houston Rotary Club, in July, 1979:

At the Tokyo summit the last week of June, President Carter agreed on your behalf and mine to hold U.S. oil imports to 8.5 million barrels a day for the next couple of years and maybe until 1985. ... In the first week of July, that outcome was described by Robert O. Anderson, a business executive with a sense of history, as the most important international decision since Bretton Woods—the conference which established the postwar monetary system a generation ago....

But to make the Tokyo promise stick, all 220 million of us—except those who are too young to reach the thermostat or too old to drive—are going to do it reluctantly, grudgingly, with conflict and violence, or whether we will manage the transition willingly, with a sense of joy in cooperation and commitment....

The hardest adjustment will be for each of us—in our offices and in our homes—to swallow and digest the idea that "better" needn't any longer mean "more."

That's the bad news. The good news is that "better" *can* still mean "better." Once we get past the quantity of life as the touchstone of affluence, we can get to work seriously on the quality of life....

This seismic shift in values—broadly from quantity to quality—has led to a widespread search for new ways to express personal and corporate and agency purposes, and measure "progress" toward them, in terms that place human beings (rather than averages or institutions) in the center of the picture....

President Carter ... was beginning to march to the same drummer: "owning things and consuming things," he said on television, "is no substitute for meaning."

In his October Woodlands address in Houston, Texas entitled "The Management of Sustainable Growth," Cleveland identified two crucial components of the Club of Rome's assault against economic development.

The worm has turned on science and technology. The idea used to be that if we could think it up, we should surely manufacture and deploy it. But this "inner logic" of technological change is being shoved aside by the notion that the future directions and purposes of technology are matters for social determination....

Campaign 1980 by Kathleen Murphy

Kissinger offers services to Reagan

Fresh from his aborted attempt to propel Gerry Ford into the Republican presidential race, Henry Kissinger has turned to greener pastures: Ronald Reagan.

Kissinger—whose undisguised desire to become secretary of state again has even Washington's jaded political community scandalized—is putting out the word that he is perfectly willing to run Ronald Reagan's foreign policy should he be elected. Kissinger made his generous offer at a March 29 speech at Baltimore's Jesuit Loyola College. Humble Henry told his 1,000-plus audience that "I have made it a policy not to refuse Presidents. I think if one is asked to serve as secretary of state, one has an obligation to the President to take that very seriously."

Kissinger also said that he had been advising Reagan on foreign policy matters for some time. "I have not consulted with his campaign," he said, "but I met on seven or eight occasions before the primaries started with Governor Reagan, and have had rather extensive conversations about the substance of foreign policy. And I was impressed with my meetings with him."

Kissinger told a rather skeptical audience that he was not seeking a position.

Kennedy: "a national consensus for economic controls"

Ted Kennedy wants to build "a national consensus for economic controls ... a national unity movement built around the question," said aide Hank Banta. Banta told an interviewer that Kennedy's private thinktank—which includes economists Barry Bosworth of Brookings, Felix Rohatyn of Lazard Freres and New York City's Big MAC, Henry Kaufman of Salomon Brothers, Bruce McLaury of Brookings, and John Kenneth Galbraith—an avowed enthusiast of E. F. "Small is Beautiful" Schumacher—is preparing a comprehensive "anti-inflation package" which he will introduce into the Congress in the near future. The package will include the following items: a full freeze on prices, wages and interest rates for six months; mandatory gas rationing aimed at reducing consumption by 25 percent over two years; and certain structural reforms in government economic policymaking and implementation. According to Banta, these "structural reforms, while not yet fully worked out, would be similar to those now being pushed by Wisconsin Congressman Henry Reuss. These would establish the Federal Reserve Board as a Big Brother over nearly every aspect of U.S. economic policy. Banta said that Kennedy is "fully supportive" of Reuss's Omnibus Banking Bill.

The admiration is mutual. Reuss recently endorsed Kennedy's presidential bid on the grounds that the Massachusetts Senator is the only man capable of leading the nation through the current economic crisis. According to an aide, Reuss is particularly impressed with Kennedy's "willingness to take advice from outside experts."

Convention bombshell

The Kennedy campaign has dropped a bombshell into the Democratic presidential race. Capitalizing on the Massachusetts Senator's unexpected defeat of President Carter in the March 25 Connecticut and New York primaries, Kennedy's chief political strategist, Paul Kirk, has announced that the candidate may wage a rules fight on the floor of the Democratic nominating convention this August. The target: getting rid of the rule that binds delegates to a particular candidate on the first ballot, a rule which favors the candidate who has accumulated the most delegates.

Claiming that any rule could be overthrown at the convention, Kirk told reporters that "the convention is the final authority on what they're going to do in the rules process." Kirk pledged a similar fight over the party platform.

While the Kennedy forces are clearly aiming at giving their man a chance for the nomination, even with a small minority of delegates, overthrowing the first-ballot rule could open up the convention to other dark horse candidates. With Carter's popularity falling precipitously, and Kennedy gaining support purely on the basis of the population's disgust with Carter, an open convention could provide some very startling surprises.

Congressional Calendar by Barbara Dreyfuss and Susan Kokinda

Omnibus Shipping Bill up for a vote

On March 20 Congressmen Murphy (D-N.Y.), Snyder (R-Ky.), and McCloskey (R-Ca) introduced a revised version of the omnibus maritime bill, a bill that has far-reaching ramifications for all U.S. shipping as well as many labor unions. The Congressmen plan is to send the bill to the floor of the House by April 4.

The legislation is an extensive overhaul of U.S. shipping policy. One of the most important aspects is a provision eliminating the essential trade routes that have been established since 1936. The bill would allow for renegotiation of the routes by the shipping conferences. "This will allow them to rationalize service," said one staff aide working on the bill. "There is a strong possibility too that existing ports will be affected since the changes in the routes will affect which ports are important in shipping."

A spokesman for the National Maritime Council warned that this provision would have a very negative effect on shipping, creating chaos in the industry and destroying many shippers. "It will be open season on the shippers. The policy of stable trade routes has helped exports and imports very much."

The legislation would also adversely affect U.S. shipbuilders, because it provides subsidies for vessels built abroad. At the same time the bill opens up labor contracts for review by the U.S. government. "The labor unions are concerned because they perceive several provisions that are antilabor," declared the Council representative. "Specifically the bill would allow the Secretary of Commerce to deny subsidy contracts to employers who negotiate contracts that employ more workers than 'necessary for efficient levels.' " The legislation would also give the go-ahead for the Commerce Secretary to review collective bargaining agreements to determine if they allow for the "efficient economic use of vessels by management and labor."

The Senate is also working on a bill dealing with shipping regulations, but the legislation, being drafted by Senator Inouye (D-Ha), does not have the broad sweep of the House bill. The Senate bill deals largely with regulatory control over the shipping industry and in some aspects strengthens it. The Senate bill will be ready for floor action by mid-April, Senator Inouye hopes.

Senator proposes blackmail against Europe

Senator Birch Bayh (D-Ind.) will introduce a proposal shortly that will call for increasing by 50 percent tariffs on imports from European countries that do not adhere to U.S. policy regarding Soviet troops in Afghanistan.

The Bayh proposal parallels legislation that was sponsored by Senators Heinz (R-Pa.), Cranston (D-Ca.), Javits (R-N.Y.), and Stevenson (D-Ill.) to increase funding for the Export-Import Bank, ostensibly so that the U.S. could compete with European subsidized exports. However, an aide to Senator Heinz made clear that the intent was to use the threat of trade warfare to force Europe to stop subsidizing its own exports. "The purpose of this bill is to bring Europe back to the bargaining table. Our tactic is to say to them that if they don't stop this export subsidizing, then the U.S. will do it too." Hearings on this legislation, the Competitive Export Financing Act, will be held in the Senate Banking Committee April 15 and 16.

Hearings on Iran requested

Two radically different congressional approaches to the Iran crisis surfaced during the last week in March from two Idaho elected officials— Sen. Frank Church and Rep. George Hansen. Senate Foreign Relations Committee chairman Frank Church, working behind the scenes with the administration and the Department of State, has called for an investigation of U.S. relations with Iran up to the point of the shah's overthrow. The proposal came at a committee hearing where Secretary of State Cyrus Vance testified. Vance gave encouragement to the idea, while several Republican Senators on the committee charged that they knew nothing about the proposal until Church and Vance exchanged views on it—giving rise to the suspicion that it had been carefully orchestrated beforehand.

State Department spokesman Hodding Carter fueled that suspicion by delicately noting that such an investigation might prove beneficial in easing relations with Iran. By ending such an investigation at the point of the Khomeini takeover, the Church committee could both coverup the role of the administration in bringing the Khomeini government to power and in allowing the taking of the hostages.

Rep. George Hansen (R-Id), who has been charging administration complicity in the Iran crisis since his trip to Teheran immediately after that embassy takeover, held a press conference on March 31 and introduced a congressional resolution calling for a full investigation of U.S. relations with Iran, including administration relations with Khomeini and their handling of the crisis. Hansen has been outspoken in his charge that the Iran crisis may have been the result of a conspiracy by international financial and oil interests and their spokesmen such as Henry Kissinger, to subvert American foreign policy to their own ends.

Bank deregulation bill signed by President

The President signed into law on March 31 the Depository Institutions Deregulatory Act, the omnibus banking bill that was spearheaded through Congress by Senator Proxmire (D-Wisc.) and Congressman Reuss (D-Wisc.). The bill puts under the authority of the Federal Reserve System virtually every bank in the nation, and provides for a phase-out of Regulation Q, allowing the savings and loan Institutions to extend slightly higher interest rates than commercial banks, and allowing states to establish usury laws. The bill passed the House of Representatives March 27 and the Senate March 28.

On March 27 the windfall profits tax on the oil industry also passed the Senate by a vote of 66 to 31 following House passage a week and a half before. The tax would take out of the economy over $227 billion over ten years. The provision to exempt from taxation the first 1,000 barrels of oil produced was deleted in the final version. Many independents fear bankruptcy because of the severe taxation rates. President Carter signed the tax legislation on April 2.

Corporate Democracy Act planned

At some point prior to Big Business Day on April 17, Reps. Benjamin Rosenthal (D-N.Y.) and Frank Thompson (D-N.J.) will introduce the Corporate Democracy Act, a bill whose goal is to increase "public accountability" of major corporations. The bill, drafted in large part by Ralph Nader's Congress Watch organizations has the ultimate aim of placing corporate management under much more control "by the people"—in this case, the people being environmentalists. The legislation would place the "public" on boards of directors, prevent interlocking directorships, and increase disclosure requirements and penalties for safety and other violations. A little noticed portion of the bill would incorporate H.R. 5040, legislation to deal with plant closings. H.R. 5040, pushed over four years ago by Walter Mondale and widely recognized as a reason for his decision not to run for President because of the adverse reaction to the bill, contains a provision which would establish compulsory worker relocation programs.

H.R. 5040 and the Corporate Democracy Act are only being floated now to create a promotional climate toward later enactment. A spokesman for Frank Thompson said that it would probably take people several years to "get over the notion that this is socialism incarnate. We see introduction of a discussion draft as important, but it is not a high legislative priority this year."

Committee votes up shipbuilding

The House Armed Services Committee voted on March 26 to increase the Navy shipbuilding budget by $2.2 billion dollars, while rejecting administration pleas for $80 million to begin work on a new cargo plane that would be an integral part of the administration's "rapid deployment" program.

The $2.2 billion increase over the administration request came after extensive hearings in the committee and public concern expressed by committee members, that the U.S. Navy, critical to U.S. warfighting posture, is being reduced to obsolescence. The increased authorization, supported by a vote of 35 to 6, would go toward the construction of 20 ships, two nuclear powered attack submarines, two frigates, and take the aircraft carrier Oriskany and the battleship New Jersey out of mothballs.

Research and Development subcommittee chairman Richard Ichord (D-Mo) led the attack against the cargo aircraft, arguing that the plane would eventually cost $12 billion and would drain away any money for other necessary programs, such as improvements in sealift capability.

National News

Administration pressures Europe on Indian Ocean build up

Under Secretary of Defense Robert Komer, who ran Operation Phoenix in Vietnam, appeared before the House Foreign Affairs Committee on Wednesday to announce that American troops will soon be stationed in Oman, Kenya and Somalia. Forts in those three countries have been selected as base facilities for U.S. combat forces deployable to the Persian Gulf region. The major function of the hearings was their function as a forum for escalating U.S. pressure on Western European NATO members to join Harold Brown's proposed "Rapid Deployment Force," or have Europe "take up the slack" in the European theater itself through a NATO build up that would free U.S. forces stationed in Europe for deployment to the Indian Ocean.

Rep. Paul Findley (R-Ill.) widely known as a Hill spokesman for NATO, questioned Komer: "There would be enormous public resistance to the United States getting involved all by itself to meet a Soviet threat in the Persian Gulf." Findley thus echoed the recently stated policy of former NSC director, McGeorge Bundy; "If Europe wants its oil, it will have to send its own troops."

Findley then continued; "It would be a serious error for the U.S. to fail to obtain allied support from the first moment."

In a frank admission of the blackmail pressure being applied to Europe, Komer replied; "We're actively working on that problem."

Anger spreads against Volcker's credit policy

Anger is spreading throughout the country against the monetary policies of Federal Reserve Board chairman Paul Volcker. Last November the sentiment against Volcker was already so strong that the Illinois State Legislature passed a resolution demanding that Congress either reverse Paul Volker's policies or demand his removal from office. In the wake of the Federal Reserve chairman's latest announcement that credit policy will be tightened, a number of other legislatures have moved in the direction of the Illinois legislature.

Legislation addressed to the U.S. Congress calling for an immediate reversal of the high interest rate policy caused a heated battle in the Pennsylvania state legislature this week when it came up for a vote. The bill, House Resolution 154, was introduced by Democratic State Rep. Joseph Zeller, cosponsored by six Republican and Democratic representatives, was moved onto the floor when 25 legislators from both parties signed an emergency motion to speed its passage. Despite strong pressure from particularly Pennsylvania auto dealers and homebuilders, who have vowed to fight for the bill's passage, it has been deferred by the legislature.

In Maryland, Senate Joint Resolution 58, introduced by Baltimore legislator Clarence Mitchell III, chairman of the National Conference of Black legislators, also attacking the credit crunch is now pending action. In an unusual move, black commmunity leaders from Washington, D.C. have become involved in the political fight around the Mitchell resolution in Maryland. Jonas Milton, former chairman of the Washington, D.C. Steering Committee of PUSH, and Reverend John Shaw, Grand Master of the Washington, D.C. chapter of the International Masons, sent a special statement to Mitchell, urging swift passage of the bill.

In California, the state Democratic Council is now debating legislation against the Federal Reserve policy, submitted by 125 member-delegates, including members of the council's Black Caucus. The gathering of California liberal Democrats is expected to endorse some form of anti-usury motion which will then be forwarded for Congressional action.

Congressional resolution against Federal Reserve policy introduced

On March 26 Senators Warren Magnusen (D-Wash.) and Jim Sasser (D-Tenn.) introduced a resolution, S.392, demanding that the Federal Reserve take immediate steps to lower interest rates, because high interest rates are causing sever inflation, unemployment and a crisis for industry. In introducing the resolution, Senator Magnusen declared, "The Federal Reserve's high interest rate policy is a travesty and should be abandoned. Left unchecked, the Federal Reserve high interest policy will make inflation worse now and later. At the same time it will bring on recession and higher unemployment. ...How will business, particularly small business, be able to afford to borrow funds to invest in the new equipment, technology, and research they will need if productivity is to be increased?"

The Resolution itself demands that "the Board of Governors of the Federal Reserve System should immediately take steps to reduce interest rates." The resolution calls for this action because "the Board of Governors of the Federal Reserve System has taken succesive steps to repeatedly raise interest rates which have repeatedly raised the consumer price index; whereas higher interest rates have not reduced inflation but do reduce productivity and prolong national dependence on foreign oil." However the resolution says that the Federal Reserve could use its powers to control credit supply through selective credit controls if necessary.

Schultze for Reagan, and against gold

George Schultze, a director of the Bechtel Corporation in San Francisco and an adviser to Ronald Reagan, is throwing his weight into that tendency in the

Reagan camp which is adamantly against the use of gold as the foundation of the world monetary system.

"I am against the use of gold as the base for the monetary system; the price fluctuates too wildly. I share Milton Freidman's views on this," Schultze stated this week.

This statement should disabuse those circles in West Germany who were responsible recently for planting an article in the newspaper *Handlesblatt* which linked Schultze's involvement in the Reagan advisory camp to reports that Reagan would support a greater use for gold in world trade and finance.

New York: in imitation of Peking

Using the current transit strike, New York's Mayor Koch apparently intends to alter the character of New York on the model of the zero-growth city of Peking, which Koch just visited for two weeks, and whose population is noted for its docility, its ability to suffer and to accept death and ruin.

As the New York and national media has featured New Yorkers "acclimating" to the strike—including one *New York Post* quote from a psychiatrist that "New Yorkers would react greatly in a nuclear war"—Koch himself exclaimed April 2: "This is wonderful. Look at all the bicycles, look at all the people walking. This is the spirit I saw in Peking."

After Koch made this statement, a New York political insider remarked, "Koch currently has the same self-identity as Chairman Mao, forcing sacrifice in the face of adversity. He is imposing self-sacrifice and self-descipline. This is truly the Chinese spirit."

Along the same lines, several policymakers for the Aspen Institute and the Club of Rome have been stressing that China's zero growth society is the model for the U.S. Stated one Club of Rome member in an interview this week: "More people should read Chairman Mao. He was brilliant. He reduced dependence on foreign aid by balkanizing China, by having no city dependent on the rest of the nation, by having all regions self-sufficient. We can draw a great many lessons from Mao. Balkanizing is the way the U.S. has to go."

The pro-Chinese *Christian Science Monitor*, in an editorial April 3, gave a good idea what this is all about. "New Yorkers are happy when they are miserable," the *Monitor* stated.

Will the Eximbank go broke?

Sources from the Senate budget committee this week confirmed that the Export-Import bank may be forced to cease lending come June 1 for lack of funds.

The bank at present only has $600 million remaining out of a total federal government appropriation of $3.75 billion. Whether the bank will remain open past June 1 is contingent on resolving a dispute between the White House, the Senate and the House over how much the bank will be allocated for 1981.

Congressional sources involved in working out the future government appropriation for the bank indicate that there is little likelihood of a resolution to the dispute before June 1. These same sources indicate that the bank was promised by the White House late last year approval to increase its current lending ceiling from $3.75 billion to $5.8 billion. Confident that such an increase would occur the bank escalated its lending rate. Then came Federal Reserve Chairman Paul Volcker's tight credit policies which prompted Senator Muskie to close the budget window on the bank, meaning that it went into 1980 with no new government funds.

"With the tight budget fever in Washington," said a Washington source, "there is even the possibility that when the dust clears the Eximbank will find itself with even less funds than last year." According to an Eximbank source, the demand for low interest rate Exim loans has never been greater than at present.

Briefly

● **CARTER BUDGET CUTS** will gut the Coast Guard's drug patrols in three or four of its 12 districts, sources say. Drug intercepting cutters are already docked because of lack of funds to pay for their fuel. Carter's budget message contains $37 million in cuts for the Coast Guard. The Coast Guard has been forced to halt drug-running patrols in 2 Northeastern districts embracing much of the key New England coastline, and also Alaska. If Congress does not soon approve an emergency $13.5 million fuel cost appropriation, the suspension of patrols will extend to several other districts covering a much greater portion of the nation's coast.

● **CITIZENS PARTY** leader Harriet Barlow of the Institute for Self-Reliance was in private discussions this week with Anderson-for-President staffers in Washington to try to win Anderson's agreement to become presidential standard-bearer on the Citizens Party ticket. "The chances are only 1 in 100 now that he'll do it," Barlow remarked. "But I have a fantasy that he can be won over. He's as committed as we are to seeing the values he's running for made a key focus of the presidential campaign."

● **A BILL** signed into law by Carter on Friday, grants the Government Accounting Office (GAO) complete authority to audit the books of federal government contractors. Under the new law, the GAO can go directly to federal court to obtain subpoenas gaining access to books without requiring Congressional approval, and can obtain court orders to acquire additional information requested by GAO auditors, without approval by the Department of Justice.

How to decree a gas shortage

A new set of federal regulations have a very simple purpose, discourage refining of oil into gasoline.

After several hours plowing through a maze of the latest regulations issued by the Department of Energy, I thought it worth your time to review the trend line of some of these remarkable rulings coming out of the Administration, particularly in the wake of the disastrous so-called Windfall Profits Tax legislation. That tax is designed to lower domestic oil production. The new regulations are designed to ensure that less oil is refined into gasoline. If we find ourselves this summer in long gasoline lines, the new regulations explain why.

Currently, the United States and the world has a relative glut of crude oil. World oil production, exclusive of the Soviet and Chinese production, for the first two months of this year is fully 3 percent greater than a year ago. Rotterdam spot prices are soft and actually declining for gasoline and fuel oil. Stocks are at record highs, with gasoline in the U.S. a whopping 13.4 percent about last March 14.

Official Presidential doublespeak on the subject these days goes something like this: This country has a dangerous dependence on OPEC oil. We must reduce this. We must impose a $4.60 surtax on every barrel of imported barrel, which is now approximately 1 of every two we consume.

Let's look a little more closely at this latest presidential move. Carter administration economists, in their finite wisdom, have decreed that the price of gasoline must rise dramatically, to force oil-hungry consumers to use less gasoline. In his recent "anti-inflation" address, Carter announced the immediate $4.60 import fee. Now, recall that last summer, when the name of the game was ostensibly increased domestic oil production, Carter announced phased price decontrol.

Part of the rationale for decontrol was to end the cumbersome government "entitlements" program. Under that policy, set up around the time of the OPEC 1974 oil embargo, the cost for refiners of more costly imported oil vs. cheaper cost domestic crude was offset by an "entitlement" paid by refiners of the cheaper crude to refiners of the more costly imported variety. This amounted to a subsidy by domestic producers to major oil companies which import from the Middle East (and do so in order to receive such government incentives). Why do you think OPEC imports rose so dramatically after 1974, while domestic production stagnated?

The impact of the oil import fee will be on gasoline consumption, by far the largest refinery product. But, there is a problem our White House planners encountered. The fee reimposes a 2-tier pricing structure. So, in a stroke of genius, the White House and DOE have proposed a new entitlements program.!

This where the next gas shortage may well come from.

Under the new program, refiners would have to obtain entitlements to refine gasoline. The proceeds would go to reimburse importers of oil for the $4.62 Treasury fee. Thus, we won't discourage imports of oil. Instead, with the tax falling on refiners of gasoline, refiners will have a "disincentive," discouraging production of gasoline. Refiners will merely be forced to shift as much as possible over to diesel and other products. The less competitive will go under. What a beautiful strategy for forcing an artificial gasoline shortage, regardless of the supply of crude oil.

Meanwhile, the London Petroleum Group—Royal Dutch Shell, British Petroleum and their American-based policy-followers at Exxon, Texaco, et al.—will come out unscathed, much as they did under the windfall tax. Domestic-based producers and refiners will be forced out of the picture, and the political "embarrassment" of a group of producers who actually try to produce oil will be eliminated.

Of course, all of Carter's economic planners have convinced him that higher prices of gasoline have no economic impact. In fact, one school even lauds the energy reduction in the economy, claiming it increases employment—less energy means more jobs—if you don't mind stoop labor.