EIR

Executive Intelligence Review

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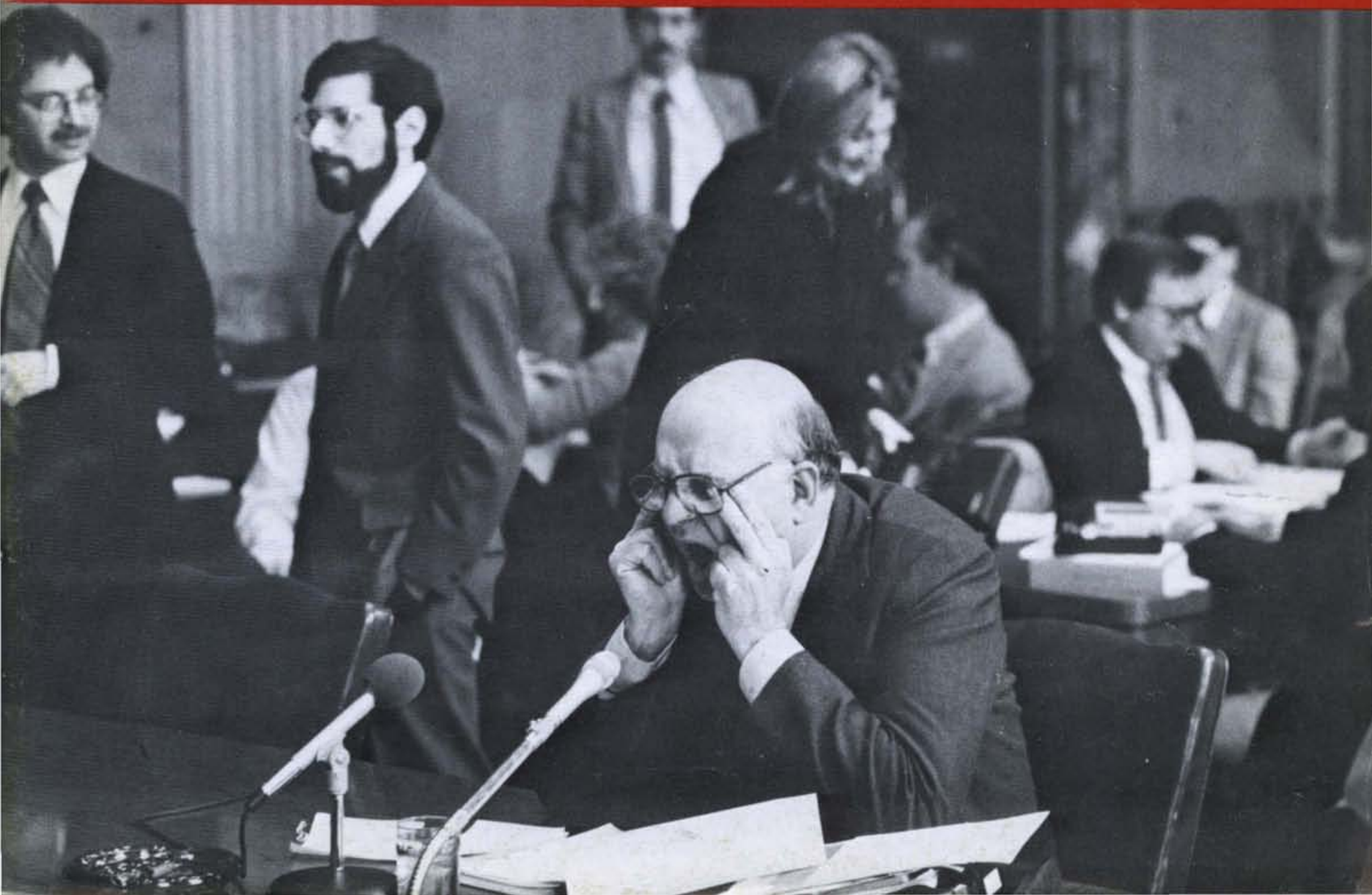
How fusion development was signed into law
Mossad faction targets French foreign policy
National Security doctrine for the Agee case

The undeclared war on American Banking



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EIR

From the Editor

One year ago Federal Reserve chairman Paul A. Volcker shifted monetary policy, put clamps on the nation's credit, and sent the economy into an accelerating collapse. Volcker's credit controls were designed to sink whole sections of U.S. basic industry and agriculture. Individual business bankruptcy rose 88 percent in fiscal 1980.

Volcker's "anti-inflation" moves have not stymied inflation, but only employment and productive industries. Last October Volcker announced that the American standard of living had to fall. In that aim, he has been highly successful.

But credit controls and soaring interest rates alone cannot force the "sunset" of basic industry unless the nation's local commercial and savings banks, which have historically been the instruments of reinvestment of family savings and industrial profits, are destroyed as well.

This week's Special Report, "The Undeclared War on American Banking," is part of a special investigation by Economics Editor David Goldman and banking specialist Kathy Burdman. Chairman Volcker graces the cover of this issue to underscore his leadership, in tandem with the Carter administration, of this war on the regional banking system.

We uncover here a scandal of major proportions, understood by only a handful of savings associations and independent bankers. We interview bankers and banking officials, and demonstrate the stakes of this undeclared war: we could loose both American banking and American industry to a British-style interstate banking system dominated by Citibank, Chase and their collaborators in the nation's largest cities.

For anyone involved in American business or agriculture this report is essential.

I'd like to point out another special feature in this week's issue, an exclusive interview with Dr. Morris Levitt, executive director of the Fusion Energy Foundation, on the occasion of the signing into law of the Magnetic Fusion Engineering Act.

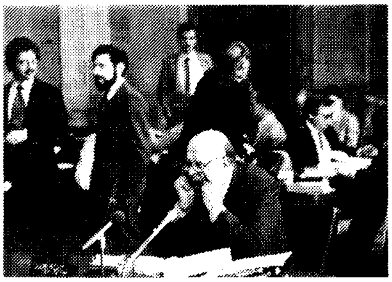
EIR Contents

Departments

Economics

Volume 7 Number 41 October 21, 1980

Special Report



Paul Volcker, chairman of the Federal Reserve Board, at a Senate Banking Committee hearing in February. Photo: Wide World.

International

National

Science and the national interest

Citizens knowledgeable in national strategic affairs are generally aware that since the Manhattan Project the larger issues of long-term American "grand strategy" have been inextricably woven with long-term national strategy with respect to the future of natural science.

Every major turning point in the history of America's relations with all other nations since the dropping of the two atom bombs over Nagasaki and Hiroshima in 1945 has been primarily shaped by this interplay between science policy and foreign policy. The Bernard Baruch Plan of putting the lid on scientific progress was coupled with Lord Bertrand Russell's 1947 proposal to A-bomb the Soviet Union while there was still time. Subsequently, the intense factional war within the U.S. scientific community, symbolized in the clash between Dr. Edward Teller and J. Robert Oppenheimer, was spiced with an impressive outbreak of real and imagined "atomic spy scandals" and finally, during the early 1950s, determined the broad outlines of both foreign policy and science policy which were carried out until the death of President John F. Kennedy.

Truncated and distorted by the vise of McCarthyism, the policy that emerged out of the science/foreign policy debates of the early fifties was 1) a national commitment to develop a broad-based nuclear energy industry not only within the United States, but also throughout the world, the Eisenhower "Atoms For Peace" program; 2) to selectively encourage the rapid industrialization of American allies in the Third World, such as Taiwan, South Korea, Venezuela, Thailand, Greece, Iran, etc.; and 3) to compete with the Soviet Union in scientific and technological achievement in order to keep America ahead at all times. As a policy perspective, it was incomplete; its implementation was further truncated and distorted by exaggerated ideological reactions in matters of foreign policy. Be that as it may, the pronuclear, prodevelopment stance of American foreign policy during the Eisenhower and JFK administrations, was, in the absence of greater achievements, the crowning glory of post-war American history.

After Kennedy's assassination, the Lord Russell-Oppenheimer school of thought in science and foreign policy made a comeback by means of a vindictive application of their idea of "nuclear nonproliferation." The resurgence of the Baruch tradition of hostility to nuclear development was again accompanied by a series of spectacular spy scandals, virtually all of them associated with the notorious case of British spymaster H. A. R. "Kim" Philby, the purported "defector" to the Soviets.

By 1966-67, the New York-Washington foreign policy establishment, then led by ex-NSC director William Bundy, NSC-director-to-be Zbigniew Brzezinski, Ambassador Harlan Cleveland and others, made a historic decision to shut down our NASA program, to gradually undermine our nuclear energy industry, and to systematically narrow the scientific educational base of young Americans. These policymakers determined that they could get away with their basic anti-science orientation only if they succeeded in imposing a U.S. foreign policy such that it could succeed in 1) persuading the U.S.S.R. to follow, by means of SALT, détente and similar institutions, a similar anti-science orientation within the Soviet Union, and 2) impose the perspective of "nuclear nonproliferation" as the overriding policy guideline vis-à-vis the Third World, under whose cover these gentlemen would effectively oppose and discourage the developing sector's efforts to industrialize. This policy perspective was implemented, and as usual, it was accompanied by mutual convenience arrangements between United States and Soviet intelligence organizations, such as IMEMO, the U.S.-Canada Institute, and other "Kim" Philby-dominated outfits, with the consent of both governments.

This science/foreign policy configuration had collapsed as of December 1979, when the Soviets formally announced that they wouldn't play anymore. They will continue to move full steam for scientific and industrial development. The "nonproliferation" imbeciles on our side, however, refuse to take the hint and continue to try and manipulate the Soviets into sterile paths.

This past week, an exceptional memorandum addressing the United States Congress on this matter has been put in circulation by the National Democratic Policy Committee. It is entitled "National Security Doctrine for the Philip Agee Case," and its author is Lyndon LaRouche, the former candidate for the Democratic presidential nomination and now Chairman of the Democratic Policy Committee's advisory board. Mr. LaRouche's memorandum is addressing both the embarrassing spectacle of recent puerile "spy scandals" and "KGB mole" stories circulating in Congress, and the deeper, more relevant issue; namely, what are the criteria for competent, professional intelligence activities that the interests of the United States require at this time, and the scientific foundations upon which such serious national intelligence functions must be based. We publish Mr. LaRouche's memorandum in full on page 48. The memorandum stresses the kind of science track we require to match and exceed Soviet physics research: training based on the conceptual tradition of Leibniz, the Ecole Polytechnique, Göttingen University, and Riemannian geometry.

'Now we can move forward'

On Oct. 7, the McCormack fusion bill was signed into law by President Carter, thereby committing the United States to demonstrating the commercial feasibility of fusion energy by the year 2000. The bill provides the initial levels of funding needed to launch engineering and design efforts on a significant scale over the next three years.

We reprint here a statement released by Cong. Mike McCormack (D-Wash.), the initiator of the legislation.

President's statement

I am excited and very pleased that the President has signed the fusion bill. There is no doubt in my mind that this is the most important energy project ever undertaken by anybody, anywhere. This is the nearest thing to landing a man on the moon that the country has undertaken since the Apollo Project. The new law establishes a national commitment to fusion energy as a mainline energy source of this nation in the 21st century, and sets a goal of having a magnetic fusion electric generating demonstration plant operating successfully by the year 2000.

The fuel for fusion energy is cheap, universal and easily obtained because it comes from the water of the ocean. It will produce an absolutely unlimited amount of cheap, clean energy for all mankind forever. For 25 years, scientists all over the world have been involved in research programs to understand how a fusion reaction will work under controlled conditions and how to build a machine to successfully transform the tremendous amount of energy released in a fusion reaction into useful electricity.

The McCormack bill recognizes that we now know what to do and that we can move forward aggressively with an energy program to accomplish the all-important goal of controlled energy production.

Two liquidity crises and two off-track solutions

by Richard Freeman

Corporate illiquidity in the United States, and general illiquidity worldwide, represent a tremendous pent-up demand for funds on the U.S. credit markets. The attempt to satisfy this demand will prevent U.S. interest rates from dipping much below the 12- to 14-percent range in the months ahead, short of a huge blowout of the U.S. economy.

The U.S. and world economies now demand ever-increasing volumes of funds just to keep functioning. The level of built-in indebtedness of the U.S. economy is such that debt service requirements are growing exponentially.

Precisely such a combination of forces was at work in the U.S. economy after the nadir of industrial activity in the second quarter of this year. By the end of 1979, the measure of liquid assets to short-term debt, the narrowest gauge of liquidity, had fallen to 0.28, less than one-fourth the level of U.S. non-financial corporate liquidity in 1945! Moreover, more costly short-term debt is overtaking the corporations' long-term debt. In 1976, long-term debt was 19 times greater than short-term debt. By 1970, the ratio was 12 times greater, and dropping fast. To get back to the 1976 level, a recent peak in an overall downward trend since World War II, long-term debt would have to grow at a $72 billion yearly rate compared with a $36.4 billion annual rate in 1975 and 1976—which were good years. For comparison, this U.S. corporate debt financing level would exceed the current account deficit of the Third World for 1979!

Our Aug. 26, 1980 issue carried a lead economics article entitled, " The Next Phase of Volcker's Austerity." *EIR* wrote that:

> Between now and November, we are headed for an interest-rate disaster. It is not merely that . . . pressure on securities markets will continue to push up rates during the next two months. The *external* side of the American fixed-income securities markets may push matters much further than domestic conditions, as such, would ever warrant.

The same general illiquidity in both the U.S. corporate sector and worldwide that led to this prediction is operative now. In August, *EIR* bucked the conventional wisdom of Wall Street, which almost to a man was saying that interest rates would stay in the July range of 10 to 11 percent and gradually ease lower. We were right and Wall Street was wrong. Now Wall Street is once again predicting a major easing-off of interest rates. This is a wrong conclusion in the short run.

The international picture

The predicament of Brazil indicates the illiquidity of the world economy. Brazil, which had a long-term financing need of $14 billion for this year, according to best estimates had nailed down only $7 to $9 billion of that total after nine months, leave a huge amount for Brazil to finance in the final three months of this year. The likelihood is that Brazil, with a total of $55 billion in external indebtedness, will not get the full amount it is seeking within the prescribed time frame and will have to tide over its finances as part of an elaborate negotiating game, with short-term bridge loans from big banks, mostly of three-month duration.

The situation for many other Third World countries is similar—or worse. At the International Monetary Fund's recent annual meeting in Washington, D.C., the Fund's managing director, Jacques de Larosière, presented his solution: the advanced industrial nations of the West will have to undergo a five-year depression, supposedly for the general good, in which the West suffers large consumption cuts and disinvestment from basic industries. This will free up a huge volume of capital, which will then find its way onto the Third World accounts.

Such a strategy essentially envisages the looting of the U.S. credit market's internal resources by shifting funds out of domestic into international financing. This already occurred once during late spring and summer of 1980, when Volcker's policies pushed down U.S. internal credit demand, and big U.S. money center banks shifted a net $15 billion into the Euromarkets specifically for such projects as short-term loans to Brazil.

Domestic illiquidity

As the above-cited figures indicate, the domestic liquidity picture in the U.S. is severely strained. This shows up both in such industries as auto and in the money market funds.

This week, the second largest money market fund catering to institutional investors, the Institutional Liquid Assets, had to be rescued by an operation that involved Salomon Brothers investment bank putting down $700,000 more for stocks it took off ILA's hands than the stocks were worth and by First National Bank of Chicago returning a $1 million fee to ILA to keep it liquid. The ILA had locked itself into long-term securities with low yields, and in the emergency operation Oct. 5 had to restructure its portfolio to higher yields on a brute-force basis.

Contrary to the stolid exterior the auto industry is wearing these days, the steady 30 percent sales and production drop year to date has led to the cooking of corporate books and resorting to financial gimmicks just to stay afloat.

Within this highly explosive context, where interest rates will settle becomes a subsumed predicate of what can be done—if anything—to rescue the U.S. credit system. There are two solutions in the foreground, and neither of them is workable.

No-win solutions

On the one hand there are those extreme monetarists like Prof. Fritz Machlup, the Vienna-born monetarist who told one of *EIR*'s correspondents at the IMF meeting Oct. 1 that "it's already gone too far. Democracy has forfeited its right to survive. It's either a fascist or communist dictatorship that will take over." Machlup is of the school of thought, now dominant in Britain, that credit-contraction "shock therapy" has to be applied to the U.S. and world economies.

This variety of thought is already partly in practice at the Federal Reserve Board in the person and policies of Fed chairman Paul Volcker, and is heard increasingly in the camp of Republican Party hopeful Ronald Reagan. George Schultz, the chairman of the Reagan camp's Economic Policy Coordinating Committee, publicly supported Volcker's recent tightening of interest rates and has been quoted on the need for the U.S. economy to "bite the bullet."

The basic thrust of the Carter wing of the Democratic Party, in turn, is exemplified by the documents released in late September by the 25-member Senate Democratic Task Force on the Economy, which includes most of the high-powered and influential Democratic senators. The Task Force is chaired by Lloyd Bentsen of Texas. In 11 policy statements on subjects ranging from housing to taxes to trade, this group, which thinks of itself as setting policy for the 1980s, tilted heavily toward the side of monetarism, a remarkable departure for the Democrats. A document written by Sen. William Proxmire for the group on monetary policy calls for "gradual and firm reduction in money and credit expansion," and further advocates that "the Federal Reserve's new policy of controlling bank reserves, should not be abandoned in an effort to modify interest rates in order to influence short-term capital flows to the United States."

Proxmire is pursuing a proposal that his colleague Henry Reuss, chairman of the House Banking Committee, raised this summer: let the Fed supervise both credit allocation and industrial policy for five critical sectors of the economy—auto, steel, electronics, shipbuilding, and banking. The solution sought is to slowly gut these sectors, issuing just enough credit to keep them alive, but holding the private funds out of reach, because otherwise these sectors' demand for funds would be insatiable.

This would give the Fed virtual fingertip control over credit in an attempt to solve the huge illiquidity problems of the U.S. corporate sector. At the same time, however, the Senate Democratic Task Force on the Economy is proposing to prop up the housing market with more credit to keep it from blowing out.

To accommodate the needs of the housing market, superimposed on any attempt to meet the liquidity needs of corporations and international borrowers, will put a very severe strain on the U.S. credit markets. As long as these pressures are not totally suppressed, the forces pushing credit demand and hence interest rates upward will be omnipresent. And if these pressures *are* firmly suppressed, through interest-rate "shock therapy," the illiquidity problem will remain, but there may no longer be a U.S. economy.

IMF meeting raises survival questions

If the Fund wins expansion of its lending powers, writes Michael Hudson, the Third World loses.

The following report from the Sept. 28-Oct. 3 International Monetary Fund/World Bank conference in Washington, D.C. continues the coverage by EIR*'s special correspondent at the meeting. Dr. Hudson is an economist formerly with Arthur Anderson, the Hudson Institute, and Chase Manhattan.*

There had been a general anticipation on the eve of the International Monetary Fund meeting that world financial resources would somehow prove sufficient to bail out the Third World's "problem countries," whose scheduled debt service far surpassed their net export earnings after meeting their essential food and oil imports. About $50 billion had been expected to come from new multilateral sources. U.S. officials had agreed to join other IMF members in raising quotas by $26 billion (a 50 percent gain, from $52 to $78 billion). OPEC governments were expected to create a $20 billion IMF fund to "recycle" their oil earnings to enable Third World countries to balance their international payments. The IMF's new head, Jacques de Larosière of France, hoped to turn the Fund into a "bank" capable of borrowing $5 to $10 billion worth of Eurodollars annually by issuing bonds backed by its $70 billion in gold reserves. The monetarists who had taken over international banking hoped that world poverty would somehow stabilize the balance of payments of oil- and grain-importing countries. In short, the mood was a dreamy speculation that "if we had some ham, we could have some ham and eggs, if we had some eggs."

None of these hopes were materializing. None of the delegates or observers from the world's commercial banks were able to say where Third World countries could raise the funds needed to pay their nearly $100 billion in debt service scheduled for the coming year, over and above their trade deficits stemming from inadequate food and energy investment. Commercial banks for their part were "loaned up." Indeed, their exposure in Third World countries was being curtailed wherever they could call in their loans without triggering an economic collapse. The paradigm was the IMF's $1.6 billion loan to Turkey last spring, of which $500 million was used to reduce bank loans and much of the balance to pay back interest and principal. This bailed out the international banks, and if they had their way they would sell all their questionable loans to the IMF, OPEC or anyone else who would take them.

An increasingly isolationist Congress was stalling in approving the $5 billion U.S. quota increase. European governments for their part were willing to endorse a modest $5 billion level of IMF borrowing in world bond markets, but only with the proviso that local governments give their approval, subject to appropriate market conditions. In the face of today's unprecedented interest-rate heights and payments deficits, such conditions hardly exist anywhere in the world. In effect, IMF members seemed ready to approve Fund borrowing in any country but their own. Most seriously, the recent round of oil-price increases had thrown the European Community's balance of payments back into deficit, preventing it from implementing the European Monetary Fund until 1982 (assuming Giscard d'Estaing is re-elected in France).

Most highly publicized was the refusal by Arab OPEC countries to finance any IMF oil facility unless they could gain a number of political concessions, in addition to higher interest rates than were being offered on "normal" quota subscriptions. Unless the P.L.O. were invited to the meetings as an official observer, OPEC would not contribute further funding. The problem was that if the IMF gave in and admitted the P.L.O., the U.S. Congress was certain to refuse to participate in any quota increase. This would block not only its own $5 billion commitment to the IMF, but also the $21 billion waiting to be paid by other governments belonging to the Fund.

To be sure, the amount of money IMF members could borrow was tripled, from a maximum twice their quotas to six times their quota levels. But Jamaica and other countries already had refused to go along with the IMF "conditionalities" imposed on member borrowing, and had broken off negotiations with the IMF. As Liberia's minister of planning and economic affairs, Togba-Nah Tipoteh, put matters, "In cases where [international payments] imbalances are due to external factors, the adoption of deflationary demand management policies is not an entirely appropriate way of correcting such imbalances." Instead of seeking in vain to stabilize international trade and payments by intensifying economic austerity and poverty, it was necessary to adopt "economic policies aimed at promoting domestic production and supply." The meeting's chairman, Tanzanian Finance Minister Amir Jamal, asked: "How does an IMF program, with its rigid emphasis on demand reduction and an incredibly short" repayment period for its loans, answer to the needs of Third World countries which "inherited structures which were functions of trade and communications developed to cater for the needs of metropolitan powers. Unless and until these were adjusted structurally, they remained economic dependencies despite their political independence. . . . Right from the very first day of achieving political independence, the burden of adjustment to the world structure has fallen on the poor developing countries." They were obliged to adjust to their immediate condition of backwardness, not to their long-term growth potential. "The IMF has historically been geared to dealing with short-term deficits which are basically cyclical. . . . The whole concept is rooted in the operation of economic structures of industrial societies which developed while others remained feudal or were colonized. . . . An adversary position is almost instinctively assumed, and a cut in demand is an automatic first concern." IMF "conditionality"—that is, the conditions on which debtor countries could borrow from the IMF—was "either a procrustean bed or a carte blanche for further Fund policy prescriptions." The Interim Committee of the Board of Governors had wholly missed the point that "the only outcome of starving these economies of necessary inputs is the accentuation of internal inflation."

For the past decade, Third World governments submitting voluntarily to IMF austerity plans have found themselves quickly voted out of office—unless elections have been canceled by monetarist military dictatorships friendly to the IMF, such as Milton Friedman's Chile. Democratic industrial nation governments had almost entirely stopped borrowing from the IMF, leaving Third World sham democracies as the only customers willing to accept the IMF's "conditionalities" for extending credit. The question was, how long could even these countries be expected to continue sacrificing their living standards and investment functions to pay foreign creditors? Indeed, what lenders would increase their exposure to borrowers who had no visible means of earning the money to repay the loan? And once these countries could not borrow more, what was the point of keeping up appearances by servicing their debts, if their credit ratings already were shot?

All the world's creditors were seeking some vehicle in which to place their money to preserve its value. But the world's debtors had no unpledged collateral left, and it had not occurred to bankers to lend for productive purposes. Thus, there was no way to turn. McNamara's World Bank was blocking any attempt to create national development programs, on the ground that this would absorb Third World raw materials and thus leave less for the industrial nations, or at the very least push up prices for the Third World's raw materials.

Even with continued austerity there seemed no way that many Third World countries could remain solvent during the coming year. One thing was clear in any event: all financial problems had become political, in a bizarre environment in which monetarism was deadly wrong, but had conquered all rival doctrines among the bankers and finance ministers in attendance. (When Britain's delegate was asked at a press conference whether its sharply higher inflation rates signaled the failure of monetarism, he replied that the question was inappropriate because the financial debate had ended: all countries had been taken over by the monetarists.)

De Larosière's opening press conference attempted to depict the IMF's political failures as somehow being planned this way all along and going right on schedule. Perhaps OPEC would lend its petrodollars to Europe, where the IMF could borrow them and lend to Third World payments-deficit countries to repay commercial banks in North America and Europe, providing the dollars for these regions to pay for their higher-priced oil. This would be merely a roundabout way of using OPEC funds to bail out Third World debtors, and would have the ultimate effect of painting the Arabs as Shylocks, not the large international banks and creditor-nation governments.

American representatives reminded delegates that when they had spoken of Arab OPEC money coming through the projected Oil Facility, a single country—Saudi Arabia—was to have put up half the funds ($10 billion). They depicted it as being politically unstable, a potential Iran which might shortly take a militant Arab position, withdraw its loans and create financial havoc. There seemed to be every intention of discouraging participation by Arab countries unless they would continue taking the servants' entrance to the IMF via special funds which had no voting power attached to them. To be sure, these funds yielded about a third more interest than voting quota contributions. But in exchange for just a few points in interest the Arabs were asked to give up all political leverage. The Anglo-Americans accused them of being like bond investors in a company demanding equity voting power. The Arabs replied, "Yes, exactly! Those are our terms: we want one vote per dollar just as you have, and we want a fair price for our money inasmuch as today's world is no longer that of 1945 when your Bretton Woods institutions were formed." Perhaps the awareness of the resulting stalemate is best relayed by one of the jokes going around the meeting. A Venezuelan was in Riyadh for an OPEC conference, and everywhere he went he heard the Arab word *bakkar*. He asked what it meant, and was told that it signified "perhaps," "later," or "maybe." "Oh, like our Spanish word *mañana*," he answered. "Yes, but not so urgent," replied the Saudi Arabian.

In all these discussions there were some wonderful malapropisms for cullers of semantic doublethink. All delegates spoke of "recycling" Arab petrodollars back to the United States and Europe. Most people think of recycling as turning garbage into something useful, like melting down used tin cans and making fresh ones, or burning garbage to make energy in special incinerators. But monetary recycling is something else. It is turning valuable money (the dollars earned by OPEC for oil exports) into government pledges, though nobody can say how they can be repaid.

No attempt to heal the IMF-Third World rift was made by de Larosière at his Sunday press conference, where he released a statement by the Interim Committee of the IMF's Board of Governors calling for even tighter austerity and insisting that "the fight against inflation must not be relaxed" (e.g., that inflation be further aggravated by reducing investment and living standards all the more). The statement cautioned "against any premature shift to expansionary monetary and fiscal policies," e.g., precisely those necessary to modernize food-deficit countries seeking to steer capital into agriculture and industry. Paul Volcker's austerity policies in the United States, and those of Margaret Thatcher in Britain, had greatly aggravated inflationary pressures. But their failure was blamed on the alleged fact that not *enough* austerity had been achieved.

Liberia's minister of planning and economic affairs, Togba-Nah Tipoteh, emphasized the dangerous financial consequences implicit in the Third World's growing reliance on short-term commercial bank lending. He pointed out that "almost 50 percent of the total [African] debt at the end of 1977 is expected to be reimbursed during the period 1978-82. The African [IMF] Governors are of the opinion that in the absence of a substantial increase in official development assistance it will be difficult for many low-income countries to honor their debt obligations." He pointed out that no lending whatsoever had been made for productive purposes enabling borrowers to earn the interest or capital to pay off these loans: "The overriding principle so far adopted by creditor countries has been to confine debt relief efforts to the minimum needed to permit the resumption of debt-service payments." He urged that lending become based on development programs, not debt service—otherwise, it would merely serve to bail out the creditor nations' own banking systems, inasmuch as Third World loan recipients would pass on their loan proceeds directly to their creditors.

The IMF spokesmen, however, simply denounced energy prices—along with the fact that Third World populations existed in the first place to consume so much food and other raw materials. Neither the monetarist policies' role in causing the world depression or the debt and food dependency burdening the Third World's balance of payments was addressed. Countries were ordered to "live within their means."

De Larosière insisted that both Third World and advanced-sector countries impose incomes policies—that is, reduce incomes—on the false premise that domestic output not consumed by workers can somehow be freed directly for export. A smaller domestic market is supposed to shift labor and capital into export industries, despite the fact that the world depression in the industrial nations brought on by monetarist policies has curtailed world demand for Third World products. Greater labor "mobility" was used as a euphemism for breaking up labor unions with "right to work" laws and reducing wage levels accordingly. Warning against "a premature shift to an expansionary stance," de Larosière admitted that "I see no course of policy that could make the economic situation truly satisfactory over the next several years." And that was that!

The World Bank

World Bank chairman Robert McNamara, as a parting gesture, announced the World Bank's intention to double its loan-to-capital ratio, increasing its lending authority to $170 billion (compared to $40 billion in loans presently outstanding). However, he made it clear that these loans would be largely to displace energy imports, not food imports. If these countries increase their agricultural production, it must be for export rather than for domestic food consumption. If they invest, it must be to displace OPEC energy imports and thus put downward price pressure on world oil, not to create their own domestic industry.

What was most ironic was that the industrial nations unanimously warned the Third World that the next World Bank chief could not be expected to be as concessionary toward them as Mr. McNamara, that the time had come to get a tough-minded man trusted by U.S. and European investors—someone like Peter Petersen, former head of the Nixon administration's Committee on International Economic Policy (CIEP), who had drawn World Bank and IMF operations firmly within the self-interest of U.S. foreign policy before leaving to become head of Lehman Brothers.

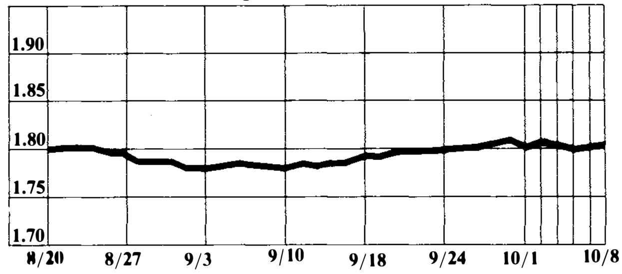
Commercial bankers were closing ranks behind a new wave of austerity. On the one hand, banks wanted the IMF to lend to Third World countries to enable them to carry their foreign debts without defaulting. But on the other hand, they didn't want the Fund to do this at their own expense. They seemed to want to get richer from the world monetary crisis they had brought about, as offered in recent crank paperbacks of the "How You Can Make Money Off the End of the World" ilk. From the U.S. vantage point, Third World countries should borrow in Europe to pay American creditors and buy American food and arms exports. Europe wanted to wait two years until its balance of payments recovered sufficiently to implement the EMF, leaving the IMF standing in its tracks. Third World finance ministers wanted anyone at all to finance continued backwardness and the social inequity that has made their life so pleasant these last few decades. Japan sought not to offend anyone, and so did China (whose 22 delegates in grey business suits were duly noted by most reporters). All sought to become partners in backwardness, not in progress, bidding farewell to a year which most populations outside the meetings felt to be one of unparalleled depression, but which is merely a foretaste of the economic battle to come.

The 1980 meetings, by contrast, were the first at which Third World problems had emerged paramount. The industrial nations had virtually stopped borrowing from the IMF, and long since had ceased to be World Bank customers. Meanwhile, there was little concern about financing Third World imports of American or European products. A world depression and massive unemployment were now viewed as healthy purgatives. The link between finance and exports seemed to have been severed entirely: finance had emerged as a thing-in-itself, even at the expense of world trade and production. The Third World needed money first and foremost to service its debts, not to increase its imports or invest in raising its productive powers. Debt service was crowding out all production and trade functions. And it was now the commercial banks who were concerned to be bailed out. The only labor it hires is that of a few finance ministers who hardly need jobs anyway (although a productive day's work would no doubt do them a world of good).

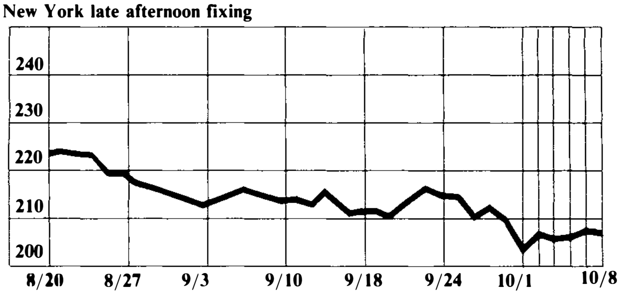
Politically oriented delegates to the meetings expressed concern that the IMF was joining the World Bank in becoming a servicing institution almost exclusively for Third World countries. This certainly was what the U.S. and European press picked up. But it is not the real point at all. The problem is not that the Fund and Bank are focusing on the Third World, for that can be highly productive and sound in itself, given its massive opportunities for development. The problem is that the new focus is utterly devoid of any attempt to increase Third World productivity.

Currency Rates

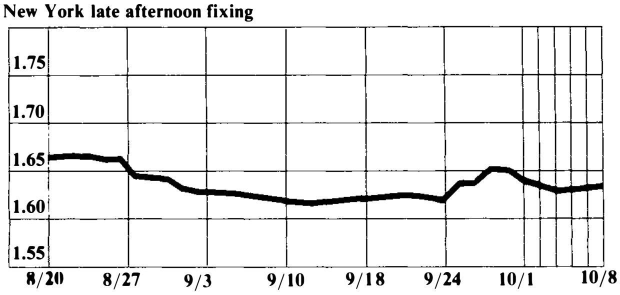
The dollar in deutschemarks
New York late afternoon fixing



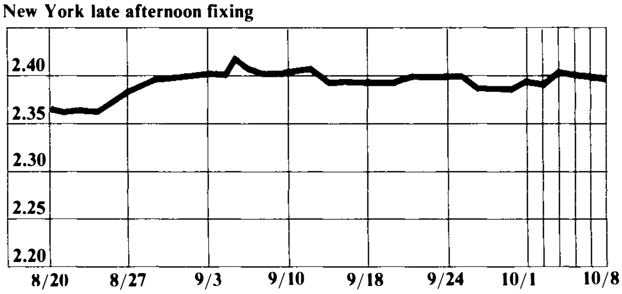
The dollar in yen
New York late afternoon fixing



The dollar in Swiss francs
New York late afternoon fixing



The British pound in dollars
New York late afternoon fixing



EPA squeezes the steel 'lemon'

A secret memorandum from the planning division of the Carter Environmental Protection Agency terms the U.S. basic steel industry a "lemon" and recommends that it be allowed to collapse. The release of the memo by Sen. Richard Schweiker (R-Pa.) occurred as President Carter announced his program to "revitalize" the steel industry on Sept. 30. "At the same time that Carter is moving to set up a new steel policy for the nation," said Schweiker on the floor of the Senate Sept. 26, "we see that top administration officials are ringing a death knell for this industry."

Bid for votes?

An official at the Labor Department termed the Carter administration steel program "an election year plan aimed at getting votes," which will do little to revitalize the industry. Over the long run, the Labor Department official said, the industry will continue its collapse—"just like the EPA memo recommends."

The memo, drafted July 10 by a Franz Kok of the EPA planning division, is signed by assistant EPA administrator for planning and management, William Drayton, Jr. It states that "our analysis indicates that there is no need to maintain any more capacity than is required for defense purposes and to replace outmoded plants would be foolhardy—based on production cost the United States cannot compete in the raw steel market in the future.

"We therefore find ourselves at odds not only with the conventional wisdom of the time and the politically attractive point of view," the memo continues. "Nevertheless, we feel that it is vitally important that someone begin to make this argument. To offer subsidies to an industry in which the United States no longer has a competitive advantage would be the worst possible economic policy. It would be a drain on our resources and put us firmly on the road to lemon socialism. A rational policy would allow the industry to gradually decrease in size, to inaugurate programs to provide transitional relief to workers and depressed communities and to provide incentives for diverting our resources to more promising industries.

"As I am sure you realize," the memo concludes, "espousing these policies will not make you the most popular figure around town. . . . I think that we have a great deal of groundwork to lay before we can spring these ideas full-grown onto the public."

Administration denials

Carter administration officials deny that the memo represents official policy. "I categorically deny that these statements [in the memo] in any way whatsoever represent the thinking of anyone in the administration other than its author," said Al Brueckman, the steel officer in the Commerce Office of Policy Development.

Fred Knickerbocker, Brueckman's boss at Commerce and the senior executive in the Office of Policy Planning, said, however, that "there is widespread debate within and around the Carter administration" on the concept of shutting down what are termed "sunset" or declining industries such as steel or auto. Denials aside, memo author Kok is being "transferred" to the Commerce Department.

The EPA proposals are strikingly similar to those contained in an unpublished memo dated Aug. 4 produced by the Senate Democratic Policy Committee's Subcommittee on Industrial Policy. Aides to Sen. Adlai Stevenson (D-Ill.), who heads the committee, project a 50 percent cut in steel and auto employment over the next decade.

The latest figures for the steel industry show approximately 230,000 workers employed—less than half the employment level in 1953!

Steel industry spokesmen have steadfastly refused to commit themselves to any major capital investment program. The minor sops being thrown their way do not offset the high financing cost caused by Federal Reserve Chairman Paul Volcker's credit politics.

With the prime rate expected to soar to 15 percent and beyond, a Commerce Department official commented that "there is no basis to expect any real investment in steel. . . ."

Commerce official Brueckman, who was involved in drafting the Carter program, admitted that the basic steel industry in the United States is likely to continue its decline because of Volcker's policies. "But we are not committed to shutting down the steel industry like what is recommended in the EPA memo," he insisted. "Absolutely not. The industry may shut itself down, but it is not our policy."

Yet Brueckman staunchly defended the Volcker interest rate policy.

Trade Review by Mark Sonnenblick

Cost	Principals	Project/Nature of Deal	Financing	Comment
NEW DEALS				
$1 bn. is cost of project.	Costa Rica from Israel	Costa Rican govt. has chosen Tahal owned by the Israeli govt. as technical advisers for $1 bn. agro-industrial project. Other Israeli companies will build a cotton gin as part of the project.		
$1.5 bn. is cost of complex.	India from France	Pechiney Ugine Kuhlmann will provide technical assistance to bauxite and aluminum complex in Orissa, India. State-owned complex was agreed on during Giscard's India visit in January.		India govt. has given go-ahead but not revealed if PUK will also construct plant.
$520 mn.	Egypt from Japan/World Bank	360,000 ton/year steel plant to be built by three Japanese companies.	$160 mn. capital, 86% owned by Egypt.	
$500 mn.	Kuwait from Japan	Petroleum refinery modernization, including building 11 pumping stations on crude-oil pipeline to be performed by JGC Corp. of Japan.		Contract signed.
$440 mn.	Mexico from Japan	Sumitomo Kobe Steel and Sumitomo will form joint subsidiaries with Mexico's Sidermex state steel company and Nafinsa development bank to build a plant producing 290,000 tons per year of seamless piping for Mexico's oil program. The Japanese will also join in building a 64,000 ton per year steel smelting works. Ownership will be 33% Japanese consortium, 33.5% Nafinsa, and 33.5% Sidermex.	Partly from Japan's Eximbank.	Part of Mexico's $20 bn. 10-year steel program.
$50 mn.	India from Italy	Coal-fired 600 megawatt electricity station to be built by Ansaldo, a part of the Italian government controlled IRI group. Deal marks first Italian entry into India, which will install 18,000 megawatts of generating power during the next three years. IRI is also competing with British, Canadian and Soviet suppliers for a $500 mn. transport plane contract.	Largely by World Bank.	Contract signed.
$90,000 reported.	Saudi Arabia from Japan/South Korea	Two desalination plants to be built by Mitsui Engineering of Japan and Shinhan Engineering of Korea.		First Japanese-Korean consortium in third country.
	Japan and France	A joint venture to produce electronic milling machinery was formed by France's H.E.S. and Japan's Toyoda Machine Works which is 30% owned by Toyota.		Partnership with French firm helps Toyoda get through EEC barriers.

Zero growth for California water?

The environmentalists and Interior Department are trying to play off sectional interests.

Expecting victory on Proposition 8 on the November ballot, which effectively bans water projects on 800 miles of northern California rivers, Governor Jerry Brown and his environmentalist followers think they are so close to putting a zero-growth cap on water supplies in the state, that they have opened a new campaign to cap the population as well.

In a recent column in the *Sacramento Bee,* Brown's state resources secretary, Huey D. Johnson, wrote, "It makes little sense to attempt to deal with the supply side—resources—without dealing with the demand side—population. . . . We need action now to better understand the population aspect of the equation." Johnson continues that we can find democratic solutions to population problems through "dialogue" without resorting to policies like China's recent state directive forbidding families from having more than one child.

Johnson pointedly reprints segments from the Malthusian "Global 2000 Report to the President" listing, for example, the report's projected Mexican population growth from the present 60 million to 131 million in 20 years. Some California minority organizations made a short-lived protest to Johnson's proposed "dialogue." Yet farmers, ranchers, manufacturers, and mineral producers who are the state's major water users have failed to perceive that the Governor and his followers are so convinced that they have sewed up a zero-growth water policy that they are now proceeding to their next objective.

This is especially ironic because, unlike most Western states, California has plenty of water. The water is not evenly distributed and must be brought to the rich agricultural valleys and population centers by large-scale projects, several of which are near completion.

Forty percent of California's rainfall, for example, falls on the north coast, and very little of that is used effectively. None is pumped back into the state's great Central Valley, which is the world's most productive agricultural area. It is the purpose of Proposition 8 to deny this water to Central Valley while simultaneously constructing environmentalist roadblocks to completion of the State Water Plan.

Most of the remainder of California's water falls on its eastern mountains, where rivers flow off into Central Valley. Here are located two great water projects, the federally financed Central Valley Project, including the magnificent Shasta Dam, which serves the Sacramento Valley in the north, and the State Water Plan, which serves the San Joaquin Valley in the south.

With this water, California produces 42 percent of the nation's fresh fruits and vegetables and 25 percent of all food consumed in the U.S., in addition to considerable exports.

Beginning in 1977, the attack on agriculture explicitly took the form of blocking new water development. The governor's Water Rights Commission that year recommended no water expansion, better "management," and withdrawal of land from production. If followed, the commission's proposals could have taken 700,000 acres out of cultivation, destroying $700,000,000 worth of cash crops yearly.

The Brown-RAND Corporation-environmentalist strategy has been to knock out projects and keep the north coast watershed out of production by playing sectional interests against one another, overlaying this with environmentalism and think-tank cost-benefit studies. The State Water Plan, adopted in 1960, was first hit by Bay Area fishing interests and environmentalists.

The federal Central Valley Project can be seriously truncated by a squabble between northern and southern water users over who will supply additional fresh water to maintain the flow into San Francisco Bay. The issue may split the California congressional delegation, a split the Interior Department threatens to use as an excuse for further "reconsideration."

Another Brown time bomb is a proposed "flexible water rights plan" that would take away previously assigned water rights, mostly to agriculture, and assign them to "new uses." This is coupled with the RAND Corporation "marginal cost pricing" theory that would assign water to the highest bidder, thus cutting out agriculture in the "free market."

Gold by Alice Roth

IMF bows to remonetization

The U.S. Treasury may also have to rethink its $42-an-ounce reserve valuation policy.

One little-noticed result of last week's International Monetary Fund conference is that the IMF probably will never auction another ounce of its gold again. In remarks to the press at the conclusion of the IMF meeting, managing director Jacques de Larosière noted that the IMF had not changed its decision, adopted at Hamburg earlier this year, not to resume public gold auctions. It would be wrong to use the word "forever" in characterizing this decision, de Larosière stated, since this would give more importance to gold than the Fund is prepared to do.

Despite de Larosière's negativism, the existence of the IMF's 100 million ounce gold stockpile—worth $70 billion at current market prices—is viewed by private bankers as the most important item on the plus side of the IMF's balance sheet. If the IMF is to borrow $5-$8 billion next year on the private capital market—a necessity if the Fund is to assume a major role in refinancing Third World countries' debts and avert a potentially severe banking crisis—it will need its gold to establish itself as a credit risk.

This subtle, yet substantial, shift in the IMF's policy on gold is only one of many indications of a quiet remonetization of gold that has occurred in recent months. In my last column, I reported a growing usage of gold by Third World countries as collateral for bank loans. And, in its October issue, *Euromoney* reports that "there has been a major, but largely unspoken change in policy at the United States Treasury. America now looks upon its stock of 260 million ounces of gold as a stock of money, not as a weapon to be deployed for political reasons."

"I would not be surprised if more countries were using gold as collateral," stated David Potts, the senior gold analyst for Consolidated Gold Fields, a London-based mining finance house with substantial holdings in South African gold mines. Potts concurred that a "gradual remonetization" of gold is taking place.

"The U.S. is getting left behind by valuing its gold at $42 an ounce," he noted. This could lead to a rethinking of U.S. policy, although, he added, "the U.S. doesn't have to rush into its decision." Like other British analysts, Potts expects a gradual expansion in gold's use as a monetary asset, which will stop short of full remonetization. "People often get confused between gold playing *a* role and its playing a 100 percent role."

Potts also views the proposed European Monetary Fund (EMF), including its possible use of gold to facilitate petrodollar recycling to Third World countries, as an "objective which is worth studying." "Will it help world trade? Will it result in real development?" In Potts's view, a positive answer to these questions is the litmus test that will decide whether the EMF's mobilization of European central banks' gold reserves is beneficial.

Potts, however, was insistent that the EMF should not be viewed as promoting a "schism" between Western Europe and the United States. "The IMF could look at the EMF as a rival. But the IMF could also look at it as a subsidiary."

As *EIR* has documented, the European Montary System began as a Franco-German project to replace the IMF and World Bank with a new institution that would make gold-backed credits available for Third World industrial development but would not be subject to the IMF's stringent conditions. This view of the EMS was staunchly opposed by the British government and leading London bankers, and Britain has yet to become a full EMS member even with its present limited form. Potts' remarks, however, are typical of a certain British faction.

Concerning the price outlook for gold, Potts says he is becoming "more confident" that we have seen the last of gold's bottoming out relative to the $850 an ounce peak reached earlier this year. The next rise in the gold price could lead to a "topping out" around $750. Gold could eventually go past $1,000, he said, depending on a big return of speculative investment demand. This surge in investment demand has not yet materialized, despite the Middle East turmoil, because Arab investors seem to feel they have "sufficient stocks" and, with the historically high level of international interest rates, other instruments are for now more attractive.

Business Briefs

International Monetary Fund

Brazil refuses an 'experimental' role?

While $6 billion in emergency loans and promises of softer conditionalities were dangled before Brazilian officials at the recent IMF meeting in Washington, 5,000 miles away, Brazilian planning minister Antonio Delfim Netto told the Brazilian newsweekly *Veja:* "No, Brazil won't go to the IMF. The IMF is the one that needs Brazil, not the other way around. The Fund, to prove the viability of its own recycling of petrodollars, needs an example of the magnitude of the Brazilian economy. It happens that the country is not available for that kind of experiment."

Delfim added: "I also fail to see any possibility that Arab countries seeking to invest their oil revenues would trust an institution they know is influenced by the United States."

The shock of losing a third of its oil supplies, formerly provided by Iraq, has been handled calmly by Brazilian authorities, though IMF officials hoped that it would shake them into dealing with the Fund. Half the Iraqi portion has been replaced by reasonably priced imports from the U.S.S.R., Gabon, and Indonesia, among others. The remainder will come from an intentional run-down of Brazil's oil reserves. Brazil will not go to the spot market, or impose internal fuel rationing, officials announced.

Conferences

EIR holds Dallas business seminar

A conference on the federal Windfall Profits Tax sponsored by the *Executive Intelligence Review* in Dallas, Texas on Oct. 3 heard *EIR* Editor-in-chief Criton Zoakos, independent oil and gas producers' spokesman D. K. Davis, and *EIR* Energy Editor William Engdahl discuss the crisis in U.S. energy production.

Mr. Zoakos, discussing energy in terms of the overall assault against the U.S. economy by the Council on Foreign Relations and affiliated policymakers, reminded the audience of *EIR* founder Lyndon LaRouche's emphasis, in national tours, on "whether the American people can develop the abilities to act as republican citizens and assume responsibility now for deliberating and enforcing the kinds of programs and policies this nation's survival requires."

The audience of 110 business leaders and senior professionals included executives and proprietors of oil companies, machine-tool companies, and venture capital investment firms, as well as state and county-level Democratic and Republican officials.

Labor

Pension funds to prop New York market

New York City Comptroller Harrison J. Goldin revealed last week plans to have the city's employee pension funds invest up to $250 million a year in federally guaranteed home mortgages. Goldin said the plan would encourage bankers to approve mortgages on homes in New York City, since they would have a ready resale buyer in the pension funds. The proposal would make the city's municipal labor unions the mortgage holder on thousands of one- and two-family houses in the five New York boroughs.

The Goldin plan represents a trial balloon floated by New York investment bankers, who are seeking "new alternatives" for financing housing. Even without the Carter synthetic fuels program, reorganizing the nation's transport infrastructure around coal exports, or a major military buildup, scarce funds are left for the housing industry, as Federal Reserve chairman Volcker acknowledged when he told a group of savings bankers to wait until the 1990's for "the decade of housing." The municipal unions will be left holding the bag in the event that the inflated New York City real estate values come crashing down.

Gold

Dresdner sees favorable supply-demand picture

A bullish view on gold is offered by Dresdner Bank managing director Hans-Joachim Schreiber in the October issue of *Euromoney*. Schreiber reports that the termination of U.S. and IMF gold sales and the sharp reductions in the amount of gold offered by the Soviet Union and South Africa have created a supply shortfall this year of 375 tons, representing an excess of demand over supply of 35 percent. The principal reason this has not led to an immediate rise in prices is that there have been considerable sales of gold from private stocks.

Schreiber believes that this private sector disinvestment will shortly be reversed, reinforced by purchases by "non-European central banks" who have a "growing desire . . . to hold gold for monetary reasons." "Should, for example, a mere 5 percent of the total surpluses of the OPEC countries [$130 billion] be used for investment in gold, a considerable increase in demand must be expected which, at today's prices, would come to some 300 tons," he writes. This compares with 1980 world supplies from mining output and official sales of only 1,045 tons.

Industrial policy

Western steel output and consumption fall

From its annual conference held in Madrid this week, the International Iron and Steel Institute reports a 5.5 percent decline in Western steel consumption for 1980, compared with 1979. In the U.S. and Britain, steel consumption is expected to be down by 19 and 20 percent.

Highest consumption growth rates have occurred in the Third World, at around 7 percent for 1980. It is also in the developing countries where steel capacity is currently being expanded. With total

Western capacity currently about 660 million tons, the Institute predicts that by 1985, Western steel capacity will be between 660 and and 715 million tons. This would involve the shutdown of about 19 million tons of capacity in the industrialized countries, and the opening up of about 73 million tons in the less-developed sector.

On average, European steel consumption dropped 4.6 percent this year. In recent months, price-cutting battles have broken out between European steel manufacturers. On Oct. 6, the European Commission sent a formal request to European Community governments, asking for power to impose production and price controls on individual manufacturers. British Steel formally threatened on Oct. 6 to launch a price war against foreign competitors if such controls were not imposed. The German press predicts that French President Giscard and Chancellor Schmidt will send approval of the plan to an Oct. 22 Commission meeting.

International Credit

Japan's new role in petrodollar recycling

Beginning Nov. 1, foreign exchange restrictions on international investments denominated in Japanese yen will be lifted for the first time in 12 months. The gradual removal of foreign exchange controls, announced Oct. 7 by Japan's Finance Ministry, is a direct response to the strengthening of the yen, following months of large inflows of petrodollar investments from Arab oil producers.

Kuwait has been in the lead in bringing an estimated total of $15 billion in investments into Japan since the beginning of this year. The yen is now at its highest level in 18 months, strongly protected from the impact of rising oil prices. Thus the Finance Ministry sees no danger in allowing foreign entities to issue yen bonds (samurai bonds) on the Tokyo market, and the volume of such loans in November is expected to be double October's volume.

On Oct. 9, a leading Japanese auto manufacturer reported it had gotten approval from the Finance Ministry for a financing plan which also involves innovative deployment of petrodollars. Nissan motors reported that it intends to issue 50 million stock shares on European markets, which it expects to be purchased primarily by Mideast investors, particularly Kuwait. The funds will go towards overseas investment projects, including a truck assembly plant in the U.S.

Capping an auspicious week for Japanese manufacturers, Japan's JGC engineering firm has just won a jumbo contract to refurbish a Kuwaiti oil refinery, a deal valued at $600 million.

Agriculture

USDA's Hjort gets presidential award

On Sept. 9, 1980 the White House announced the conferring of the Presidential Rank Awards for the Senior Executive Service, a $17,000 cash prize, to the Agriculture Department's undersecretary for Economics, Policy Analysis and Budget, Howard Hjort. President Carter chose Howard Hjort because, as the White House announcement puts it, "Mr. Hjort has successfully made the shift in USDA policy from producer-oriented to consumer-oriented in policy and budgetary matters."

The award is viewed by farm leaders as a strident celebration by the Carter administration of its own agricultural policy. The American Agriculture Movement, which voiced strong opposition to the award, reprinted an angry letter from one AAM member in its latest Washington newsletter. "The stupidity of consumer-oriented USDA policy with their constant low farm price efforts will eventually lead to a shortage of skilled farmers, a shortage of food, and a shortage of grain to export to help offset our foreign oil purchases," Doug Wildin wrote to Agriculture Secretary Bergland, Howard Hjort and Democratic National Chairman John White.

Briefly

- **MEXICAN DEFENSE** Minister Félix Galván López reiterated Oct. 7 that the Mexican military must be "modernized" in order to "fulfill the missions and obligations entrusted to it by the Constitution, among them the preservation of the oil wealth." The Mexican worry: a unilateral Washington grab to take the oil.

- **CONSOLIDATED GOLD** Fields officials deny reports that their firm sent a team of gold experts to the Soviet Union last month to discuss coordination of South African and Soviet gold marketing. David Potts, senior gold analyst for Cons Gold and a member of the team which visited Moscow, says the Soviets were interested only in obtaining Cons Gold's detailed analysis of world supply and demand for gold.

- **THE VENEZUELAN** government closed the only national tractor factory in the country on Oct. 3. The closing is a result of the adoption by the Herrera Campins government of "free market" policies as the model for Venezuela's economy. The reasoning behind the shutdown, as stated in an official communiqué is that "no enterprise whose products will mean an increase in costs for the farmer can be kept functioning. For this reason it was not advisable to maintain the tractor-producing company."

- **PRESIDENT CARTER** announced Oct. 8 the formation of two special panels on housing in the 1980s. One is a White House task force, and the second an Advisory Committee on Housing, which will consist of industry executives and other housing experts. The latter group, to be headed by former HUD secretary Robert C. Weaver, will focus on the outlook for expanded secondary market activities, the potential for alternative mortgage instruments, the role of thrift institutions, and the appropriateness of tax-exempt or tax-deferred savings accounts.

The undeclared war on American regional banking

by David Goldman

Half a trillion dollars of banking assets and control over the direction of the nation's economy are at stake in a war of attrition in the nation's banking system. When delegates from the nation's 14,700 commercial banks arrive in Chicago Oct. 11 for the annual conference of the American Bankers Association, the principal question on their minds will be which of them will be left when it is all over.

Last month, the Carter administration leaked word of a policy document prepared by presidential adviser Stuart Eizenstat recommending repeal of longstanding safeguards against bank takeovers that cross state lines, including the so-called Douglas Amendment. Although the White House signal stirred up concern from regional bankers and the state bank supervisors' association, it served more than anything to distract attention from the game plan pursued by the administration and Paul Volcker's Federal Reserve. Whether or not Congress preserves the Douglas Amendment, which forbids bank holding companies to buy out-of-state banks, or the McFadden Act, which bans interstate branch banking, the transformation is underway. "We'll chip away at it," says David Roderer, general counsel to the Comptroller of the Currency, the Treasury's bank supervisory arm. "Little by little it will become irrelevant and one day someone will say, 'Hey, by the way, we still have McFadden here,' and we'll take the corpse and sweep it under the rug. The way McFadden and Douglas are written, there are too many ways to get around them. They are all loopholes and no cheese."

The move for nationwide banking is taking shape on a dozen legislative and regulatory fronts. Its proponents count on at least one major victory before the end of the year: Federal Reserve approval of the proposed International Banking Facility (IBF) which will allow banks to conduct Eurodollar market business reserve-free from their home office. "We expect to get it through," Citibank chairman Walter Wriston told *EIR* in an Oct. 1 interview. However, the strategy of the core group of money center bankers who planned the offensive indicates that they will win the war, even if they lose every battle in Congress.


Photo: Wide World

Chairman Volcker before the Senate Banking Committee on July 23.

The objective is a banking system like that of Britain or Canada, with a few giants dominating all commercial branch banking. What men like Citibank's Walter Wriston and First Chicago's Barry Sullivan are counting on is their opponents' failure to understand that this is an *economic* more than a mere *banking* issue. As *EIR* showed in a Sept. 2 economic survey, the intent of Federal Reserve Chairman Paul Volcker's tight-credit regime is to shrink the traditional, mainly consumer-oriented basic industries such as housing, auto, steel, rubber, and trucking, in favor of so-called sunrise industries. The banking war is an adjunct of the basic economic game plan embodied in Fed Chairman Volcker's monetary policy, with the support of the leading members of the Reserve City Bankers Association, the money center banks' club.

What counts is not whether the Main Street bank in a small American town calls itself the First National Bank or the town branch of Citibank. Detailed comparisons of the balance sheets of the small club of money center banks against those of the rest of the nation's commercial bankers shows that America has two competing banking systems with radically different markets and lending philosophies. One is principally oriented to the $1.2 trillion Eurodollar market, the unregulated, reserve-free whirl of foreign-held dollars where the typical deposit turns over in less than two weeks. The other is tied to the household finances of the United States and the circulation of consumer durable goods—precisely the economic sectors that Volcker has put under siege.

The 1980 economic collapse saw a 13 percent per annum rate of decline of personal income, and the lowest

In this section

David Goldman, who supervised this investigation and contributed the introductory section, is *EIR*'s economics editor. The remaining sections were written by senior *EIR* economist Kathy Burdman.

savings rate since the data series was assembled. The nation's thrift institutions have lost through June $20 billion in deposits to high interest rates prevailing in the money markets. They stand to lose another $20 billion in the second half. The correlates of this collapse of household finances was a reduction by one-third in the output of the auto and housing industries, and somewhat smaller drops in dependent industries such as steel, rubber, and road haulage, and other consumer durables industries. Estimates of the 1979 to 1980 reduction in net farm income range about 25 percent.

The root of the problem

Both the deposit base and the lending base of the regional banks are in jeopardy for economic reasons. On the liabilities side, the balance sheets of the regionals are heavily weighted toward consumer and small business deposits, and on the asset side toward lending to households and small businesses. Until 1980 the regionals were historic net sellers of federal funds, i.e. short-term lenders to the money center institutions, an activity that fell back sharply along with net inflow of deposits.

The most important statement Federal Reserve chairman Volcker has made concerning the future of banking came a week after his new turn to monetarism was announced last October, in Oct. 15, 1979 testimony before the Senate Banking Committee. For the first time, Volcker announced that "the American living standard has got to fall." That implies rapid attrition of the basic usefulness of the regional banks. Despite their strong opposition to repeal of Douglas and McFadden, most regional bankers reluctantly backed Volcker's monetary measures in the name of fiscal and monetary conservatism—ultimately rendering their opposition to the legislative changes useless.

The biggest irony is the heated rivalry between small commercial banks and thrift institutions, including savings banks and savings and loan associations. This rivalry centered on the phase-out of Federal Reserve Regulation Q, which formerly gave savings banks the right to offer more attractive rates on time deposits, and collateral issues such as savings banks' right to accept Negotiated Order of Withdrawal (NOW) accounts, the close equivalent of commercial checking accounts. Leaving the details to the final article of this report, the issue boiled down to a fight over a dwindling supply of household-originated deposits.

In fact, the global impact of the Volcker measures will be to spur mergers between savings and commercial banks, on the same terms by which the money center banks will gobble up smaller institutions. Such a wave of mergers was widely expected at the end of the first

U.S. commercial & savings bank lending, total domestic loans outstanding

As of June 30, 1980
(billions of dollars)

Loans by:	1	2	3	4	5	6	7	8	9	10
			Commercial					Savings		
Loans to:	**Loans* (2-10)**	**Commercial* Bank**	**Top 134**	**Regional**	**Foreign**	**Savings* (7-9)**	**Savings* Banks**	**Regional Savings**	**Savings* & Loans**	**Commercial Paper****
Total	**$1,643.09**	**$942.20**	**$389.57**	**$467.41**	**$85.22**	**$590.89**	**$109.70**	**$60.58**	**$481.19**	**$110.00**
Agriculture	32.60	32.60	4.98	27.62	0	0	0	0	0	0
Real Estate	250.00	250.00	98.98	151.02	0	0	0	0	0	0
Consumer of which:	764.89	174.00	62.49	111.51	0	590.89	109.70	60.58	481.19	0
Housing	640.35 (Est.)	60.00 (Est.)		30.00 (Est.)		580.35	99.16	54.76	481.19	0
Commercial & Industrial Total	407.82	297.82	149.99	106.76	41.07	0	0	0	0	110.00

* Total
** Loans between corporations

Source: Board of Governors, U.S. Federal Reserve

The chart breaks down the total banking credit issued in the United States, now over $1.6 trillion, in two ways. It shows both how much is lent for different purposes, including business, consumer, housing, and agricultural loans, and also shows who lends it. What is striking is how much of agricultural, housing, and consumer lending depends on thousands of small, local commercial and savings banks. If these banks were swamped into a "nationwide banking system" on the British model, as the Carter administration threatens, the type of business these banks do would be sharply reduced, with devastating consequences for the American living standards and for traditional industries.

International earnings as a percentage of total earnings

	1975	1976	1977	1978	1979
Citicorp	70.6	72.4	82.2	71.8	64.7
Chase Manhattan	64.5	78.0	64.9	53.2	46.9
Bank America Corp.	54.7	46.7	41.8	34.6	37.7
Manufacturers Hanover Corp.	49.1	59.3	60.2	51.2	48.8
J. P. Morgan & Co.	60.2	46.1	48.1	51.0	52.0
Chemical N.Y. Corp.	41.6	41.1	38.8	42.0	35.1
Bankers Trust N.Y.	58.6	60.4	82.8	67.9	51.5
First Chicago Corp.	34.0	17.0	21.0	16.0	3.5
Continental Illinois Corp.	13.4	23.0	16.6	17.8	18.5
Security Pacific Corp.	12.6	6.9	11.6	15.1	10.4
Composite	**52.5**	**50.8**	**50.5**	**45.5**	**42.6**

Source: Salomon Brothers, "Lending to LDCs: Mounting Problems," April 2, 1980, Table 19, p. 24.

quarter of 1980, when the prime rate had reached a historic peak of 20 percent, and many such preparations are quietly underway now that interest rates are climbing back up again. The smaller commercial banks and the thrift institutions are in the same lifeboat, despite their animosity over regulatory and legislative issues.

The nation's balance sheet

Table 1 gives the breakdown of total bank lending activity in the United States as of June 1980. For the large commercial banks, listed as the top 134 commercial banks, the lending figures are only partial, since they exclude foreign lending by American banks. However, the information in this table is sufficient to show the differences between what are actually two different banking sectors operating in the United States, namely the top 134 on one hand, and the regional, smaller commercial banks plus the thrift institutions on the other.

First of all, the proportion of regional banks' lending to the nonfinancial sector is much higher than that of the top 134. Ninety-two percent of the regionals' total loans outstanding of $467 billion is to the nonfinancial categories listed, against only 81 percent for the top group. The difference is made up by a higher proportion of money center bank lending to financial borrowers, largely brokerage loans. This is the most volatile, potentially inflationary sector of lending.

Secondly, in all categories except commercial and industrial loans, the regionals have the overwhelming preponderance. They have 85 percent of the total $32.6 billion agricultural loans; 60 percent of total real estate loans; and 64 percent of total consumer loans. As might be expected, the large banks' group has half the total commercial and industrial loans, the regionals 36 percent, and foreign commercial banks the remainder.

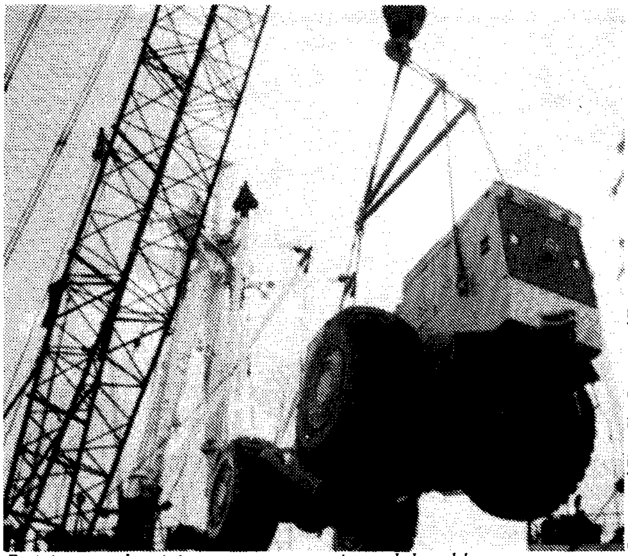
When the thrift institutions are taken into account, the overwhelming preponderance of housing loans derives from the regional commercial banks plus the savings institutions, 98 percent of whose total loans are housing-related.

When the composition of the regionals' commercial and industrial lending is taken into account, the huge side of the economy these banks account for is in view (see Table 1). Typically, a regional commercial bank will have neither the size nor the facilities to conduct significant business with a Fortune 1000 corporation. However, it will lend to the retailer, including prominently auto dealers, as well as to the consumer who purchases the retail item. The most important single sector of small business the regionals serve is agriculture. The second largest industry group they serve is housing contractors, financing the business side of single-family home construction while a savings bank finances the consumer side.

Table 2 shows the extent to which the largest commercial banks are oriented away from all forms of domestic lending. The decline in the composite of international earnings as a percent of total earnings reflects an actually higher proportion of assets abroad earning relatively less.

Banking and the real economy

To understand the significance of the absorption of large portions of the regional banks—ultimately full absorption Canadian-style—into a national branch banking system, we proceed from the national accounting categories employed in the LaRouche-Riemann econometric model. Excluding the financial sector from consideration, for a moment, we analyze the workings of the physical economy in terms of two categories, maintenance and surplus. Broadly, the maintenance


Courtesy of First City Bancorp of Texas

Raising productivity: consumer-oriented durables.

costs break into two divisions, the portion of the physical product required to maintain the goods-producing workforce at its existing living standard, and the raw materials, capital investment (depreciation) requirements to maintain the capital stock. The surplus of the physical economy also breaks down into two divisions: that portion of the physical economy's output required to maintain the rest of the economy, i.e. the nonproductive or services sector, and the portion of surplus available for productive investment.

Clearly, it is the final category, surplus available for productive investment, that determines the course of economic events. This is the margin of new net investment in plant and equipment, labor force expansion, or upgrading of the existing labor force. Whichever institutions control the distribution of this surplus direct national economic activity.

The question we then ask is what *legal* form the surplus takes for purposes of distribution. The closest surrogates for net surplus on the national income tables are *personal saving* and *net corporate profits* (after tax, inventory valuation adjustment, and depreciation). In the American economy, these are of roughly the same magnitude. The 1980 level for both, according to Department of Commerce estimates, will fall between $60 and $70 billion.

Credit requirements

Of course, there is no one-to-one relationship between the categories of financial and physical surplus. It is simply the case that the financial flows which allocate the net surplus occur principally in the categories of household savings and corporate net profits. An additional margin of bank credit may be required to circulate net physical surplus in the case that corporate income and household income do not rise as fast as the physical product.

The basic financial ratios of the American economy do correspond to the results of the physical analysis we have conducted with the LaRouche-Riemann model. Historically, the real rate of surplus creation in the United States is the lowest among the ten leading industrial nations save Britain. Savings in the United States have correspondingly fallen as a percentage of Gross National Product from 7.6 percent in 1962 to 4.9 percent in 1977 and barely 3 percent during the current year. The net surplus allocated by the disposition of household income has become negligible.

This is the root of the problem of the regional banks and the thrift institutions. As the Comptroller of the Currency wrote in a June 1980 staff paper, "The potential growth of any nation's banking system, and individual banks within that system, is heavily dependent upon the overall rate of growth in that nation's economy and money supply and underlying factors, such as household savings and private capital formation, which influence economic growth."*

In one further respect, the use of the financial flows we have labeled personal savings and net profits is helpful. Total economic net surplus will be applied either to expanding and upgrading the labor force or to improving the productivity of industry. Most of the financial surplus available for the former is channeled through those institutions which provide funds for housing and other big-ticket consumer durables. In very broad terms, we can say that the major portions of net economic surplus are allocated on the labor force side by the regional savings banks and the thrift institutions, and on the corporate side by the large commercial banks.

The consolidation of the commercial banking system into a few hands will put the disposition of the nation's future into the control of Walter Wriston, David Rockefeller, and similar money center bankers. Politically, it will immensely strengthen the power of the money centers against the regions, since it will leave the regions dependent for supply of credit—a circumstance that has become a point of great bitterness in Canada.

We already know, and have reported in detail, the economic program of the potential consolidators of the nation's banking assets. It is a permanent depression for the "sunset industries" and the transfer of resources to coal, high-cost oil, synthetic fuels, electronics, and other so-called sunshine industries. Bankers around the country are already planning the next wave of mergers and consolidations on these terms. In interviews with *EIR*, officers of Security Pacific Corp. and Alabama Bancorp indicated an intention to change the geographic patterns of their lending to correspond to the "sunset versus sunrise" industry breakdown.

* "U.S. Banks' Loss of Global Standing," by C. Stewart Goddin and Steven J. Weiss, The Office of the Comptroller of the Currency, Washington, D.C., p. 8.

Comptroller's office: using the loopholes

From a Sept. 26 interview with David Roderer, legislative counsel to the Comptroller of the Currency:

Q: What is the status of your in-house study for Comptroller Heimann on restructuring and interstate regulation?
A: It's not ready, because the administration is getting nowhere in Congress and with the banks. Stu Eizenstat's report is not going to be made public this Congress or in a lame duck session. It may never be made public. And it is very general, anyway. All it contains is some proposals for stretching McFadden to allow branching across Standard Metropolitan Statistical Areas and slow phasing out of the Douglas Amendment. So far we have written the technical language for this, to be able to implement it in legislative form. We're also writing the technical language for every other form of interstate bank deregulation. We'll have it ready if anyone ever delivers the Congress. . . .

Q: Do you see any way to speed up the process? What about the new move to implement International Banking Facilities this fall?
A: Certainly this will promote national banking, it will expand it. Institutions that are now unable to afford engaging in multinational lending will be able to do so, since they'll have easier access to the markets in their own city.

Q: Do the prospects for a national CHIPS system fit in?
A: Yes, we will have a national CHIPS—this is the demand of the regional money center banks, and it will be met. This will, of course, create a new kind of banking system, a type of banking that didn't exist before, and it will be very profitable for the IBF owners and make them more competitive, in that sense. But it won't impact much more on the domestic market, it will just facilitate them in doing the same things they did in Nassau.

Interstate banking is going to be a slower process than I'd like. We will have to do it through liberalization of Edge Acts, the formation of new kinds of financial institutions, extensions of Loan Production Offices across state lines, building up in short all the mechanisms we now have in place to subvert McFadden. Little by little it will become irrelevant, and one day someone will say, "Hey, by the way, we still have McFadden here," and we'll take the corpse and sweep it under the rug. The way McFadden and Douglas are written, there are too many ways to get around them. They are all loopholes and no cheese.

I'll give you an example. Gulf & Western just purchased a bank in California, the Fidelity Bank. Corporations aren't normally supposed to do that. Now Fidelity Bank has stripped off its commercial loans, and is now set up only to do retail business—retail lending and retail deposit taking. So they claim they're no longer a bank under the Bank Holding Company Act definition of a bank, which reads that a bank is any institution "which makes commercial loans and takes deposits." It's not a bank under the Act—we don't think so. We haven't objected and they haven't bothered to go to the Fed. They need no further regulatory approval. I'd watch the status of this one; of course somebody may sue. But for now, we've got a new form of institution doing deposit taking and lending which is a national bank operating interstate. . . .

Then we have liberalization of the Edge Acts [subsidiaries allowed to lend and take deposits interstate, but only from foreign entities—K.B.]. The Fed has developed this new "qualified business entity" concept under which we would liberalize Regulation K, governing to whom Edges may lend, such that we'd let Edges become a full-service bank to any corporation which is an exporter. Unlike now, where Edges are only allowed to finance a foreigner's imports from the U.S., in other words to finance a U.S. company's exports, now the Edges would be able to do general lending to any such U.S. company. The Fed in fact proposed this six months ago and was shot down. Within six weeks it will come back with a modified proposal to let Edges start expanding at least into financing the manufacturer of goods for export. St. Germain also has his own version of this same idea—rather than liberalizing Regulation K he would expand the 1914 Edge Act to liberalize Edges' powers directly.

Q: About the IBF plan to allow non-New York money center banks to establish Cayman-style full-service branches in New York—can that be done without congressional debate and legislation?
A: No. The McFadden Act totally precludes such branches, which are fine as foreign branches, to move domestically across state lines. This would require legislative change of McFadden. However, one of the major reasons the administration wants to reform the Douglas Amendment is that IBFs could then be established as subsidiaries of these non-New York banks across state lines. That is, under the Douglas Amendment at present, a bank in a multibank holding company can have a sister institution, another bank which is a subsidiary of the same holding company, in the same state. Furthermore,

if two or more state legislatures pass reciprocal state laws, as South Dakota and New York have, then with mere state legislation the same holding company can have two bank subsidiaries in both states, just as South Dakota has allowed Citibank to come in.

If, in addition to this, on the federal level we change the federal law to relax the Douglas Amendment, the parent bank can have a sister institution through its holding company all over the country. Bank of America's holding company then has Bank of America's parent headquarters in California and Bank of America's full-subsidiary IBF in New York. The BOA New York IBF subsidiary wouldn't be directly owned as a subsidiary of BOA San Francisco headquarters the way BOA London, Limited is today, but the IBF subsidiary would be recognized by foreign depositors dealing with it as having the equivalent full backing of the parent bank through the parent holding company.

Q: If you do this on a federal level, can the states block it?
A: No, once it's done on the federal level it can't be blocked on the state level. And that way we don't have to go state by state. We've got to stamp on states' rights and force the issue. Look at New York and California—they've been negotiating reciprocal state-level agreements on Douglas for years, and no results. The California assembly just killed a bill allowing it, Assembly Bill 1926, and a similar one died in the New York legislature. If we change the federal law, it forces the issue.

Q: What about the Emergency Bank Aquisitions Bill?
A: That's dead for this Congress; of course, we may be able to sell it next year in January, on the basis that this is the minimum we need in case there is an emergency.

Q: What about the First Penn takeover? Isn't the bill already de facto law?
A: As a matter of fact, yes, that's why we let it die. So the FDIC bought a bank in Pennsylvania and sold it to a bunch of banks in New York. We don't need the bill, we can do it anyway.

And don't forget the whole expansion of credit card subsidiaries across state lines. Did you see Citicorp's ad in the *Washington Post* today? They've made another end-run around McFadden—they're offering to take deposits, commercial bank savings deposits in effect, on the Citibank credit card across state lines. Now, technically, this is only the Citicorp holding company's credit card subsidiary, which is a non-bank subsidiary. Technically it doesn't make loans, so it's not a bank. It just grants credit, ha, ha. But there it is doing banking across state lines. They've made an end-run around Reg Q, too. They're paying no less than 8 percent on what is really a savings deposit, but they're not calling it that—that really will give the savings banks competition.

Sunbelt 'survivors' plan banking expansion

An aide to Maurice R. Cox, executive vice-president of Alabama Bancorporation, Alabama's largest bank holding company, whose flagship bank is the First National Bank of Birmingham, gave the following assessment of the bank's future plans for capital shifts under interstate banking:

Q: With the move to interstate banking, your bank has been dubbed a "survivor institution" which will expand and absorb other banks into other states through the South. Do you foresee a redeployment of regional banking capital as a result of this interstate evolution out of "sunset" and into "sunrise" industries? Into which industries and geographical areas do you plan to move?
A: Yes, we fully welcome the move to relax the McFadden Act, and we are developing a large network of correspondent banks throughout the Gulf states, in Georgia, Florida, Mississippi, and Louisiana, with which, as legislation allows, we contemplate an even closer relationship. In general, we see a broad move away from the northern tier of the Sunbelt, where we are now, into the Gulf region. And we plan to be moving the concentration of our lending into energy and energy-related industries along the Gulf Coast.

Q: You are now one of the lead banks to the Birmingham steel industry?
A: Yes, but our studies indicate that future growth in Alabama and contiguous states will be primarily in the southern part of the states. The Port of Mobile has seen a great expansion and will see continued expansion. The governor is becoming more involved in increasing the flow of traffic through the port. He just returned from London, where the Port of Mobile opened a new office to expand European activity—both exports out of and imports into the port. Of course coal is a major factor with the new European coal demand. There are a number of corporations seeking deep-water ports for large coal handling facilities all along the Gulf Coast, and Mobile is seeing a good share of this, seeking sites for 60 to 200 acres for coal shipping facilities.

We are also very interested in expanding lending to the oil and gas industry, particularly offshore.

Q: Have you actually begun to put finance into any of these port expansion programs?
A: Well, there are a number of proposed projects we are looking at in ports all along the Gulf, but in terms of our clients, it is premature to discuss even with them the concretes of financing of their projects. The U.S. government is a tremendous variable in this entire coal program

and for any port expansion in general. The companies have no idea whether or when the government will lift the environmental restrictions on coal and deep-water ports.

Q: What other industries will need financing relative to the port boom?
A: Europe is also very interested in our Gulf ports, because there is increased European investment coming into the Southern states. We are negotiating right now with a German company to build a steel-related facility in Birmingham.

Q: Someone wants to build more steel plants?
A: No, I said a steel-related facility, I can't be more specific. We also have foreign auto makers coming into the area, and the paper industry will expand. Foreign investors are very interested in the whole computer-related industry here. They want to produce for export.

Jay C. Crager, Jr., executive vice-president and chief financial officer of Allied Bancshares, Inc., one of the top ten Texas-based holding companies whose lead bank is the Allied Bank of Texas, gave the following view:

Q: With the move to interstate banking, your bank is seen as a "survivor" which will expand. Do you foresee a new move into the "sunrise" industries?
A: We're very confident that there will be a relaxation of the Douglas Amendment and we are very comfortable with that. We are expanding a large network of correspondent banks into other states, especially Louisiana.

Q: What about lending to new industries?
A: The energy map of Texas here on my desk shows a broad band of energy resources in an arc around the Gulf Coast. We have here oil and gas, oil services, and a tremendous expansion in deep-water ports for those industries, which can only expand under decontrol and rising energy prices. On the other hand, we have made a corporate policy decision against west Texas.

Q: You mean against more exposure to agriculture?
A: Yes. We haven't that much expertise in agriculture. But more important, there is no future in that area of the economy. Agriculture requires water, which out there is a disappearing resource. We'll move our expansion into the eastern third of Texas, Louisiana, and points east. That's where there are the most people and water, and the long-range growth potential is far better.

Q: What about the coal boom?
A: Coal? There's a lot of talk, and we do have some considerable deposits of lignite in this area, but no opportunities have really been defined due to the start/stop policies of this administration. Logic says coal would be very big, but unfortunately, we see no practical movement taking place at this time.

Q: You're expanding into Louisiana; does that mean you're going into the big plans for expansion of the Port of New Orleans?
A: No. We don't see any concrete plans there, either. So we intend to just continue for the time being with our current concentration of expertise in oil and gas and oil services as we expand into these new geographical areas. Why New Orleans? Morgan City is a port where we're more interested in the business environment—that's the oil port in Louisiana, where the oil is both onshore and offshore. We'll be expanding especially in the area from Morgan City to Houston.

Security Pacific eyes the Gulf states

Security Pacific Corporation, California's third largest bank and the nation's tenth largest, is one of the most aggressive money center banks planning to move throughout the Sunbelt to take over regional banking as soon as the McFadden Act and Douglas Amendment can be weakened. The bank has developed a non-banking "Finance Group" with loan production and finance company offices in 29 states.

Security belongs to the Aspen Institute group that initiated banking deregulation in the first place. Chairman Frederick G. Larkin, Jr., is on the board of ARCO, the oil company of Aspen Chairman Robert O. Anderson. ARCO President Thornton Bradshaw sits on the Security board.

An excerpt follows from a recent interview with Security Pacific's executive vice president for corporate planning, John J. Duffy.

Q: What is your attitude toward interstate banking?
A: The economy will be greatly helped by a consolidation of the banking system. We want an end to McFadden and Douglas, and we want to see that happen fairly completely by about five years out.

Q: How will you expand geographically?
A: We want to open full-service operations in the Sunbelt in particular, especially Texas and Florida. We will also open up in New York and Chicago, but that will be primarily for international banking purposes.

Q: And into which industries will you be moving?
A: Energy. Our corporate banking department already works heavily with the major energy companies across the country. We especially hope to expand into Texas with decontrol, and go into oil and related areas. Houston will be a big area.

Carter administration pushes interstate banking plan

by Kathy Burdman

Every official and regulatory agency of the Carter administration over the past few months has gone on record as supporting a wholesale move toward "lifting the barriers to interstate expansion of domestic [banking] institutions," as Comptroller of the Currency John Heimann told the House Banking Committee Sept. 25.

By far the most sweeping plan is contained in a top-secret "Report on the Douglas Amendment and the McFadden Act" written by President Carter's Domestic Policy Adviser, Stuart Eizenstat. The report, now being drafted in legislative form for the lame-duck Congress in November, would wipe out so many smaller regional banks that it has been embargoed for publication by Carter until after the election.

'Phased liberalization'

The Eizenstat report calls for the "phased liberalization," as its author told the American Bankers Association Sept. 5 in a speech excerpted below, of both the McFadden Act, which prohibits the large banks from setting up branches across state lines, and the Douglas Amendment, which prohibits them from having subsidiaries interstate.

Eizenstat calls first for the "liberalization" of the Douglas Amendment to allow the so-called survivor banks, money center banks such as Citibank, to have, through their holding companies, subsidiary full-service banks in states throughout the Union. In practice, Eizenstat is paving the way for the "survivors" to simply buy up hundreds of weaker small banks and make them into subsidiaries, since the survivors have no intention of making new banking investments in these areas.

Eizenstat secondly calls for "changes" in the McFadden Act regarding "treatment for electronic facilities." Sources at the Comptroller of the Currency say the administration wants to expand the practice initiated this month by Citicorp, whose credit-card subsidiary has begun to solicit savings deposits on credit cards in Washington, D.C. and other major cities—setting up "phantom branches" nationally. This will also run savings banks out of business, because Citibank is paying 8 percent for deposits, far above the limit imposed on the thrifts.

According to the Conference of State Bank Supervisors, which roundly denounced the plan in a Sept. 16 press release, Eizenstat will also propose in his legislation another "liberalization" of McFadden across state lines within Standard Metropolitan Statistical Areas

The McFadden Act and the Douglas Amendment

The 1927 McFadden Act is the backbone of the U.S. dual banking system. It establishes state lines as the boundary within which banks may expand branches.

The U.S. dual banking system has its roots in the Lincoln administration's 1863 National Currency Act and 1864 National Bank Act, which encouraged the founding and expansion of local banks to finance industry and agriculture, and set up a dual structure of state banking agencies to encourage local banks and federal agencies to encourage nationally chartered banks.

The 1927 McFadden Act allowed both local state-chartered and nationally chartered banks to expand branching equally within a state to encourage general local banking activity, and also formally ceded responsibility for state branching laws to the states. It specifically forbids, however, any bank from extending its branches across state lines, to keep the big New York banks and other money center banks from running local banks out of business, and taking local depositors' money out of the community for use in

(SMSAs). Chase Manhattan, for example, would be able to put hundreds of branches directly into New Jersey and Connecticut, and take over the banking market from local banks.

Administration spokesmen such as Comptroller Heimann and Fed Governor Henry Wallich have been frank in stating that the prime beneficiaries of this legislation will be the largest 100 or so money center banks, by deliberate design. According to Heimann, "the realities of the financial marketplace" dictate that "large bank combinations" must be able to expand and purchase smaller subsidiaries nationally. Wallich notes that since the big money center banks are taking a beating on the international market due to their incompetent lending practices there, they must be bailed out by a government grant of whole chunks of the domestic U.S. banking market. "American banks' ... rank among the world's largest banks has declined" due to McFadden and Douglas, he states. "Easing of restrictive banking legislation would improve the position of money center banks" and give them the ability "to acquire a larger volume of core deposits" in the domestic market.

speculative national and international markets.

A **branch** is a full-service office of a bank headquarters, completely backed by the capital of the head office, and is the legal equivalent of the head office.

The 1956 Douglas Amendment, Section 3(d) of the Bank Holding Company Act of the same year, establishes state lines as the boundary within which **bank holding companies** may own **subsidiaries**. It is a pillar of the dual banking system.

A bank holding company is a legal fiction under which a large money center bank such as Citibank has itself legally chartered as a "subsidiary" of a holding company shell such as Citicorp. The holding shell can then also acquire non-banking corporations such as insurance and finance companies, both in-state and interstate, allowing Citibank, in effect though not in law, to vastly expand.

The Douglas Amendment prohibits Citibank from having its holding company set up another "sister" subsidiary bank in states outside Citibank's home state. If Douglas were abrogated, the Citicorp holding company could own subsidiaries in every state, making Citibank in effect a nationwide bank. In practice, local banks now in existence would be bought up to be turned into subsidiaries, and funds would flow out of local communities back to the holding company in New York.

DOCUMENTATION

Eizenstat and Heimann versus regional banks

White House Domestic Policy Adviser Stuart Eizenstat, in a Sept. 5 speech to the American Bankers Association, described his classified report on the Douglas Amendment and the McFadden Act as "the transcendent financial reform of the 1980s" for the U.S. banking system. Excerpts from his speech follow.

The administration has undertaken a study of the geographical restraints on banking in the United States. ... Several weeks ago we presented to the President recommendations for the liberalization of existing geographical restraints. ... A phased liberalization of existing geographical restraints would serve the public interest. There are two ways in which such a liberalization of geographical restraints may be carried out. First, through the modification of the McFadden Act ... or through the modification of the Douglas Amendment to the Bank Holding Company Act.

As between the two, over the short term, a modification of the Douglas Amendment would have a less intrusive effect. The President is likely to ask Congress to follow the precedent adopted by many states in adopting the bank holding company expansion route of takeovers of subsidiaries across state lines. The administration is likely to suggest Congress initially consider regional or other restrictions on such acquisitions under the Douglas Amendment.

With respect to the McFadden Act. the administration will not make recommendations for specific changes at this time, with the exception of treatment of certain electronic facilities.

Comptroller of the Currency John G. Heimann, in Sept. 25 testimony before the House Banking Subcommittee on Financial Institutions, called for an end to all interstate banking regulation and in particular the Douglas Amendment. He said in part:

For years, pressure has been building for relief from the legal restraints that artificially confine the expansion of U.S. institutions' full-service banking operations to a single state. ... Those artificial restraints impede the rational development of strong domestic institutions that can best serve the banking needs of the American public and maintain their position of leadership in the worldwide financial arena.

The confinement of U.S. banking organizations' full-service banking to a single state is not only anomalous and unfair relative to foreign banks' acquisition opportunities, but also outmoded. . . . Rather than setting up barriers to foreign acquisitions, Congress should begin lifting the barriers to interstate expansion of domestic institutions.

We have consistently supported gradual eliminations of restrictions on bank expansion, in the interest of increasing competitive opportunities and maximum reliance on the discipline of the marketplace. . . .

At this juncture we must begin to formulate new rules to govern acquisitions of healthy banks, including large bank combinations, not merely extraordinary measures to provide for the rescue of failing institutions. We fully support H.R. 7080 [The Emergency Bank Acqusitions Act—ed.], of course, but in the context under discussion here, that proposal must be regarded as the minimum required legislative adjustment to the realities of the financial marketplace today. Looking beyond emergency acquisitions . . . at a minimum the Congress should devise a practical plan for phasing out the Douglas Amendment restrictions on interstate bank holding company acquisitions. . . .

The Conference of State Bank Supervisors, the organization of the nation's 50 state bank commissioners, challenged the administration's Eizenstat report in a Sept. 16 press release. CSBS President Angelo Bianchi, New Jersey Commissioner of Banks, also hit the Fed's interest rate policy. Excerpts from the release:

CSBS President Bianchi challenged Mr. Eizenstat's false contention that state statutory limitations on geographic expansion of individual banks have been the primary causes of the banking industry's loss of market share. Commissioner Bianchi's view was widely shared by bankers present; and Mr. Eizenstat could not offer a reply of substance to the challenge.

Factors other than McFadden/Douglas provisions have stifled the growth of the industry as a whole. Loss of market share has been caused primarily by unrealistic inflexibilities in Regulation Q, state usury ceilings made counterproductive by monetary/fiscal excesses, extremely high interest rates, and by an uncontrolled tidal wave of other federal regulatory red tape. . . .

Attacks on McFadden and Douglas are unduly negative. The U.S. banking system is the greatest in the world. It is decentralized; decisions generally are made close to the point of need . . . to accommodate widely diverse needs of thousands of trade areas. Some banks serve primarily large businesses nationwide; some serve primarily agriculture and households locally. . . .

The proposal for 'free banking zones'

Without the approval of Congress or notification of the American public, the Carter Federal Reserve is planning to bring the $1.2 trillion Eurodollar market into the United States, reorienting the U.S. banking system as a whole toward international debt refinancing.

This month, Federal Reserve Chairman Volcker intends to have the Fed Board of Governors pass a proposal by the New York Clearing House Association, the organization of New York's top 12 banks, for "free banking zones" in major U.S. cities. U.S. banks would be authorized to set up new branches called International Banking Facilities (IBFs) which would be allowed to operate in the U.S. itself, free of federal reserve requirements, federal interest rate regulations, federal and state taxes, and other government regulation.

Volcker's Staff Director for Monetary Policy, Stephen H. Axilrod, and his Washington staff are now wrapping up a new classified study for the Fed of the New York banks' IBF proposal. The Federal Reserve Board, under Regulation D on reserve requirements of the Federal Reserve Act, claims to have the power to implement the entire IBF program without Congressional action. All it need do is lift the reserve requirements. With the passage of the March 1980 Monetary Control Act, the Fed Board of Governors announced in an Aug. 15, 1980 revision of Regulation D, "the Board's authority to establish a reserve requirement necessary for the implementation of monetary policy on Eurocurrency transactions is extended to cover all domestic depository institutions." The language in the Monetary Control Act specifies that this includes all "foreign branches, subsidiaries, and *international banking facilities*" of non-member and Fed member institutions [emphasis added].

What is the Eurodollar market?

The $1.2 trillion Eurodollar market, located primarily in the City of London, was first set up there as an "outlaw" market where international bankers could move funds for speculative purposes outside the U.S. precisely because of the relatively sound American bank law tradition which mandates federal supervision of

New York Fed president Anthony Solomon

banks. In particular, American banks have been required to set aside reserves in case of bad loans, so that banks whose borrowers cannot pay will not themselves collapse. The British government in the early 1960s, however, began the practice of allowing U.S., British, and other banks to put "Eurodollars" into London banks with no reserve requirements or regulation.

Since then, bankers have deposited what is today $1.2 trillion in Euromarket banks, multiplying world inflation. The Euromarket is basically a giant crap game where banks create dollar credits and loan them to each other and to bankrupt Third World nations, without holding reserves or accounting to any authority for how sound the loan is, or whether it can ever be repaid. "It's a chain-letter that runs as long as nobody calls 'foul,' " one banker described it. "Citibank London lends Brazil $1 billion of which Brazil is required to redeposit $500 million, based on which Citibank loans another $1 billion to Mexico. It works until someone can't pay."

What's the hurry?

This money center bank attack on the McFadden Act is behind the sudden rush for IBFs.

The International Banking Facility proposal, of course, is not new. The New York Clearing House Association, the umbrella group for the big 12 New York banks, proposed the free zones in July 1978 (see box), but were rebuffed by regional banks throughout that year and last.

Although IBF proponents argue that the free zones will only bring back to the U.S. business already done abroad, even on the face of the proposal IBFs would be extremely inflationary. First, a significant amount of the dollars now in London and other offshore centers will flood into the U.S., and with reserve requirements relaxed, the money center bankers will create more such deposits here as they do now abroad. The kind of debt refinancing that now goes on in the Euromarkets will then proceed apace in the U.S., while new lending for productive purposes is totally deemphasized.

This operation alone will create a two-tier U.S.

The originators of the free zone plan

The proposal for free banking zones was put forward by the New York Clearing House Association, the organization of the top twelve New York banks, in a submission to the Federal Reserve entitled "International Banking Facilities in the United States." Excerpts from the July 14, 1978 proposal follow.

This paper urges amendments of Federal Reserve regulations in order to improve the ability of U.S. banks to conduct international banking activities in the United States. Changes are requested in Regulations D and Q to permit the taking of non-resident deposits by foreign-branch type "international banking facilities" to be regulated as if conducted offshore—free of reserve requirements and interest rate limitations.

The member banks of the New York Clearing House Association have developed specific amendments to Federal Reserve Regulations D and Q which would . . . accomplish the following:

1. Permit deposits to be taken by the facilities only from foreign customers . . . exempt from reserve requirements.

2. Permit extensions of credit by the facilities only to foreign customers and to other international banking facilities. . . .

3. Authorize international banking facilities to accept call money–i.e.,interest-bearing funds payable on or after a specified [usually same-day—ed.] notice. . . .

A principal benefit of the establishment of international banking facilities will be the creation of new employment opportunities in U.S. urban centers. Meaningful job gains will probably be realized as some of the activities now conducted abroad are switched to the new facilities. Even more important, U.S. centers should participate to a much more substantial extent in the future growth of worldwide employment in international banking than they have in such growth thus far.

banking system, with the money center banks like Citibank and Continental Illinois who could afford to operate such facilities becoming enormously more profitable in the short term than the "bottom tier" smaller regional banks. The first-tier banks can, with the ongoing moves to interstate banking, channel these profits into subsidizing their regular domestic lending operations, taking large amounts of domestic business away from the regional banks.

Moreover, the Carter administration and the big money center banks have plans to use the IBF program to destroy the McFadden Act and Douglas Amendment themselves, and create an interstate banking system through Electronic Funds Transfer.

Why the sudden change? The Fed thinks it can get sufficient national political support for the proposal now because the Association of Reserve City Bankers, the private club of the chairmen of the country's largest 134 money center banks, has moved in back of the IBF program.

Last December, the association, under the guidance of its president, Mellon Bank Chairman James H. Higgins, set up an International Banking Facilities Committee at whose meetings "Volcker and the New York Clearing House banks have made a deal with the larger regional money center banks," Capitol Hill sources told *EIR*.

The deal is to cut the large non-New York money center banks, led by Mellon, the Philadelphia National Bank, Bank of America, First Chicago, Continental Illinois, and First National Bank of Boston, in on the IBFs in return for support. The rest of the nation's 14,600 regional banks would be cut out.

The content is that the top 134 bank members of the association will set up a national Electronic Funds Transfer payments system, referred to as the "U.S. CHIPS," which will grant them interstate branch banking in violation of the McFadden Act, greatly harming regional banks.

On Feb. 27, the Reserve City Bankers' IBF Committee endorsed the New York Clearing House IBF plan pending New York's acceptance of two minor amend-

Reserve banks and Fed versus McFadden Act

The Association of Reserve City Bankers, the national organization of chief executive officers of the top 134 U.S. money center banks, established an International Banking Facilities Committee in December 1979 which was the principal form in which the New York big banks and the non-New York money center giants hammered out their compromise to set up IBF free zones. The Association's IBF Committee endorsed the IBF plan Feb. 27, 1980. Excerpts from the IBF Committee's June 1980 final report follow.

The IBFs concept offers to the U.S. banking system important benefits which can be summarized as follows:

1. The competitive position of U.S. banks would be enhanced through the operation of an "offshore" facility based in the U.S. Such a facility could be operated at a reduced cost considering the administrative and operational benefits, better communications with the head office of the parent bank, and reduction of overseas staff.

2. A reduced cost of funds may well be realized due to a preference for U.S. country risk of depositors. U.S. banks could reduce their cross border funding.

New York presence for non-New York banks: From an operational standpoint, it is clear that a non-New York bank could operate an IBF from its head office location in exactly the same manner in which a *Caymans or Nassau branch is now operated*. . . . It is equally clear that several major non-New York banks with a broad scope of international activities foresee a significant competitive inequality absent the authority to establish an appropriate New York presence. . . . Those banks argue that *IBFs should not be permitted unless non-New York banks are allowed to establish a proper presence in New York through some type of special purpose branch capability.* This presents a McFadden Act question. . . ."

Proposals for resolving Clearing and Settlement Problems: . . .There is a unique opportunity now . . . to improve the U.S. payments system.

1. Direct CHIPS Settlement: We should seek CHIPS and Fedwire rule changes to allow non-New York banks which clear Eurodollar transactions through their New York Edge Act to settle net CHIPS debits or credit directly through the Fed account of their parent bank. This would allow free movement of

ments governing minimum deposits and time-frame for opening the IBFs. On May 28 the New York Clearing House accepted the amendments and wrote a letter to the Fed proposing them and urging a speedy move of the IBF plan back to the front burner.

Things began moving quickly. By June 2, New York Fed chief Anthony Solomon in a New York speech publicly endorsed the "revised" New York IBF plans as "consistent with the national interests of the U.S." On June 24, the 14,000 bank-member American Bankers Association, which earlier had set up a Task Force on IBFs chaired by John R. Cummings, Jr. of the Industrial National Bank of Rhode Island, switched its position wholesale on IBFs. The ABA wrote a letter to the Fed endorsing the New York Clearing House plan based on the two "new" amendments. By July, Volcker was urging a "speedy review" of the program before the House Banking Committee.

Now the Chicago, Boston, and San Francisco bankers say that the Fed could rule to set up free banking zones at any time.

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reserve balances of member banks between Reserve Districts. This proposal would end discrimination between New York clearing banks and others by giving all *equal access to CHIPS and Fed settlement across district lines* [all emphasis added].

Anthony Solomon, president of the Federal Reserve Bank of New York, in a June 2 speech before the New York State Bankers Association endorsed the New York banks' proposal for a banking free trade zone. Solomon stated that he wishes to use IBFs to enact an international credit cutback by bringing sections of the international Eurodollar market back within the United States in these terms:

I believe offshore banking is likely to continue to grow. I would prefer to see a return of the Eurodollar business to the U.S. and foreign-based deposit and loan business serviced from U.S. shores. The proposal to create an International Banking Free Trade Zone in the U.S. would enable U.S. banks to handle foreign business onshore, free of the Fed's reserve requirements, state taxes, and interest rate ceilings. International banking facilities could be set up in any state that adopts appropriate enabling legislation, just as this state has done. The proposed international banking facility is consistent with the national interests of the U.S. and could strengthen our hand in international discussions of how offshore markets should be treated.

U.S. CHIPS move: electronic warfare

The Association of Reserve City Bankers, the elite club of the chief executive officers of the top 134 banks in the United States, has devised a plan to implement a nationwide interstate banking system using the medium of Electronic Funds Transfer. Dubbed "the U.S. CHIPS" by insiders, the system would be a national version of the New York Clearing House banks' Clearing House International Payments System (CHIPS) computer. N.Y. CHIPS currently clears each day over $120 billion in international and domestic bank settlement payments between the top 12 New York banks, their London Eurodollar market offices, and their foreign bank clients.

The non-New York members of the Reserve City Bankers among the leading Philadelphia, San Francisco, Boston, and Chicago money center banks have made the establishment of such a national CHIPS clearing system the condition of their political support for the New York banks' proposal for free banking zones. "We seek the creation of a U.S. CHIPS," Continental Illinois executive vice-president Alfred F. Miossi told *EIR* recently. "We must have equal access by all major banks through national membership in CHIPS to clear directly with London. We can support the New York proposal for International Banking Facilities if we have such equal treatment."

The explicit aim of such a U.S. CHIPS, both New York and non-New York money center banks agree, is to set up a a de facto interstate banking system in the U.S. to totally undermine the McFadden Act and Douglas Amendment which now restrain the big money center banks from crossing state lines to drive the rest of the nation's 14,600 banks out of business. The U.S. CHIPS system "would constitute a large breach of the McFadden Act, in fact a rather large hole in the dike," Industrial National Bank of Rhode Island chairman John B. Cummings, Jr. told *EIR* about the proposal, which he helped author.

The New York CHIPS computer, a Burroughs large-scale dual processor B 6700 located at the New York Clearing House in lower Manhattan, is owned jointly by the 12 large New York Clearing House banks. As the name baldly implies, CHIPS is the center of a rather large international crap game. Most of the payments it clears through its 250 computer terminals located in New York, London, the Cayman Islands, Nassau, and other offshore banking facilities are the highly speculative debt refinancing transactions between the banks which make up these offshore markets. Few CHIPS payments have to do with actual movement of goods in international trade.

The very nature of the CHIPS time factor also skews the entire character of lending of its participants away from long-term productive investment-type lending and toward short-term credits which must continuously be rolled over. The predominant maturity of Euromarket and other offshore liabilities cleared through CHIPS is less than 30 days, and vast amounts of the activity are on a day-to-day basis. The more banks engage in such very short-term lending to each other, the more profit they make, and the less inclined they are to venture into long-term lending, especially when they have come to depend on this short-term finance for their own source of funds.

Electronic interstate banking

The move to bring this kind of nonproductive banking to the United States interstate is being led by the old-line "Brahmin" bankers of the Philadelphia-Boston aristocracy who have little use for industrial development in the United States, which they see as going into a "post-industrial technetronic society." Under the direction of its president, James H. Higgins, the chairman of Pittsburgh's Mellon Bank, the Association of Reserve City Bankers set up an International Banking Facilities Committee that proposed the U.S. CHIPS as part of the program for setting up these offshore operations in the United States itself. Committee members included Frederick Heldring of the Dutch Heldring banking family, president of the Philadelphia National Bank; Leland "Lee" Prussia, ex-vice chairman of the Bank of America; and Richard Thomas, president of the First National Bank of Chicago. Richard D. Hill, chairman of the First National Bank of Boston, provided consultant help. Reserve City leader John R. Cummings, Jr., chairman of the Industrial National Bank of Providence, Rhode Island, set up a Task Force on IBFs dominated by the Reserve City Bankers within the more broadly-based American Bankers Association to spread the concept there.

The Reserve City Bankers' IBF Committee's Final Report of June 1980 calls explicitly for the U.S. CHIPS. The IBF proposal, it states, provides a "unique opportunity ... to improve the U.S. payments system [through] direct CHIPS settlement. This proposal would end discrimination between New York Clearing banks and others by giving equal access to CHIPS across [Federal Reserve] district lines," including across state lines, the report states (see excerpts below).

In a series of interviews, executives of Continental Illinois, First Boston, and Bank of America outlined their negotiating positions vis-à-vis the New York Clearing House for such a U.S. CHIPS system. Each said that U.S. CHIPS is ready to roll.

The implementation of a U.S. CHIPS will mean the beginning of a full-scale interstate banking system in this country which will swiftly undermine America's regional banks. First, the 134 U.S. CHIPS members, by virtue of their superior clearing services, would have faster and cheaper access to funds by far than their 14,600 smaller regional banking competitors, creating two profit tiers in the U.S. banking system.

Second, the non-New York Reserve City Bankers are demanding either an overt breach of the McFadden prohibition against interstate banking so that they can set up IBFs as full branches across state lines into New York, or an equivalent breach of the Douglas Amendment to do so with IBFs as subsidiaries of their banking holding companies. As the Reserve City IBF Committee Final Report states, they demand IBF facilities in New York operated "in exactly the same manner in which a Caymans or Nassau branch is now operated," that is, as a full-service branch. Industrial National Bank's John Cummings, reiterating this proposal, noted in an interview printed below that he and his Philadelphia, Boston, and Chicago colleagues are demanding exactly this kind of "breach of McFadden" or an equivalent option for "full subsidiaries as in London, which would breach the Douglas Amendment."

Such interstate banking, which would put these IBFs into direct competition with the nation's weakened regional banks, is very near, Cummings stated. "We feel there is enough muscle at the ABA and the New York Clearing House to get this program through at the Fed," he predicted. "The Fed has been very cooperative."

DOCUMENTATION

ABA calls CHIPS a way around McFadden

John R. Cummings, Jr., chairman of the American Bankers Association Task Force on International Banking Facilities and head of the Industrial National Bank of Rhode Island, told EIR *that the intent of the money center banks* *of the Association of Reserve City Bankers in supporting IBFs is to effect a "breach" of the McFadden Act and/or Douglas Amendment to allow the money center banks to conduct international Eurodollar banking interstate.*

Q: What are the conditions under which the non-New York money center banks will support IBFs?
A: The New York banks under IBFs would be able to bring the full resources of their parent capital to back up their IBFs' international activity, since their IBF branches are in their home state, whereas presently the non-New York money center banks (MCBs) are precluded by the McFadden Act and Douglas Amendment from having full-service branches or subsidiaries in New York. If this continues, foreign depositors would not view us as competitive from a risk standpoint with New York banks. Therefore we desire to have a Cayman Island- or Nassau-style full-service branch in New York, with full headquarters bank capital backing. These are legal outside the U.S., but inside the U.S. across state lines they would constitute a large breach of the McFadden Act, in fact a rather large hole in the dike. The other option is to have full subsidiaries as we do in London, which would breach the Douglas Amendment. Our lawyers are apprehensive about this, but the Fed may have more muscle than they think to allow it.

Q: Are you for a repeal of McFadden and Douglas?
A: Certainly, I would like to branch anywhere, we'd be happy to have them eliminated. Of course no one would want to come to Rhode Island, so that's easy for me to say. We feel that there is enough muscle at the ABA and the New York Clearing House to get this IBF program through at the Fed. The Fed has been very cooperative.

Q: What about a national CHIPS system, is that interstate banking?
A: Well, yes, the other way to accomplish the IBF program is to do it directly through our headquarter's home office and become a national member of CHIPS. It raises a similar breach of McFadden. This is too much like having a branch in New York—in fact the same as a branch in New York. The first step to this would be to have headquarters do most of the lending, operating on an interim basis with a New York representative office on line with CHIPS.

Q: Does the Fed now support IBFs because Volcker and Solomon want to put capital controls on Eurodollar lending?
A: Yes, of course their intent is to move the entire London-Cayman-Nassau market back to New York. This would strengthen Solomon's hand in negotiating with other central banks for Euromarket controls. Now, many of the BIS central banks will not go along.

Money center banks demand CHIPS system

Executives of three "Top 20" non-New York money center banks who are working with the New York Clearing House banks to set up a CHIPS Electronic Funds Transfer banking system detailed their negotiating positions to EIR:

Joseph Corriachi, Director of Electronic Funds Transfer, Continental Illinois Bank, Chicago: We are discussing a national CHIPS system in a task force set up by the New York Clearing House Association with the Chicago, Boston, and California banks. We would like full membership in CHIPS; all the regional money center banks want full membership in CHIPS. We want the whole pie. But we're not going to hold up the IBF [International Banking Facilities] for that. We're willing to move now on the IBFs if we can get certain first steps of access to CHIPS—it's not our system and we have to work with the people who run it, after all.

Right now the position of the task force members outside New York is that we are asking for installation of CHIPS terminals in our Chicago headquarters, just as these terminals are presently installed in our Edge Act subsidiaries in New York. Right now our Edge Acts in New York clear their payments through their sponsor New York bank; the Edge is not even a CHIPS member itself. We're not asking for head office CHIPS membership, either. We just want a terminal in the head office to clear through the New York sponsor correspondent bank.

We're also looking for same-day settlement on the CHIPS system. We feel the EFT has matured enough so that rather than just take the benefits of float, we'll forfeit that to be more competitive in offering same-day service.

The New York banks are fully agreed on both of these points, I think. They have no reasons not to be. It's a question of implementation, they just have to figure out how to put in the long lines, and the legal and regulatory ramifications.

We are also writing national tax legislation modeled on the New York State legislation passed in June 1978 by Governor Carey, which gives any IBF set up in New York the same tax breaks they now get in London—no state or fed taxes. We don't see why we should have to go state by state on this.

EIR: At what point does this become interstate banking in violation of the McFadden Act, the Douglas Amendment, and so forth?

Corriachi: We have a team of lawyers at the New York Clearing House working on this right now. We have to find out how far we can go and what are the legal ramifications.

George Phalen, Executive Vice President, First National Bank of Boston: We'll accept the IBF if the outside New York banks are not put at an anticompetitive disadvantage. We're all for the IBFs, we even think New York is a great place to have them. We just want to be sure we're in on the agreement on a fully competitive basis.

We want a national version of CHIPS. We are asking ultimately for full membership by our head offices in CHIPS directly.

However, if not, we might be able to operate through our Edge Acts in New York. We would prefer not to do it in the form of Edge sponsorships through a New York CHIPS member. We'd prefer our Edges to be granted full membership in CHIPS.

We feel confident that these proposals now being reviewed by the Fed will be forthcoming and that we'll be able to accept the Fed's eventual recommendations.

Raymond Peters, Executive Vice President, Bank of America, San Francisco: We want some kind of better clearing mechanism in New York both for liquidity and time-zone reasons. If there's a decision by the Fed to move with IBFs we're for the concept, but we have to have these conditions.

Our problem is that when we go to settle through our New York Edge at the end of the day in New York, we're still doing business in San Francisco. And the New York Federal Reserve monitors our New York Edge, which is not heavily capitalized, and we cannot use daylight overdrafts—which means that although we are moving huge volumes of funds around the world, we can't move them through the Edge unless we have the dollars physically in New York. And there are three hours a day when we don't. During this time, of course, the money is coming in from all over the world into San Francisco, but we have then an imbalance between San Francisco and New York which we can't settle because New York is closed.

We want to be able to have an account of the San Francisco headquarters at the New York Fed. I don't think that would be a violation of the Douglas Amendment; it would only be a Fed account. Then we could settle our CHIPS net imbalance by having CHIPS clear Bank of America payments directly with this headquarters account at the New York Fed, bypassing the Bank of America New York Edge altogether. This is not really full membership in CHIPS by Bank of America.

Of course we would rather have official full membership having CHIPS settle the San Francisco headquarters account directly with the San Francisco Fed. That would make us a full member in CHIPS.

Dereg bill aids interstate banking

Actions already being taken by the Federal Reserve and the Depository Institutions Deregulation Committee (DIDC) under the March 1980 Depository Institutions Deregulation and Monetary Control Act are bringing interstate banking to the U.S. without further legislative or regulatory action by the Fed or the Congress.

The two basic changes occurring under the Monetary Control Act are the implementation of interstate banking through Electronic Funds Transfer (EFT) systems, and a price war between the smaller thrifts and commercial banks that threatens to drive them both out of business and make them prey to interstate takeovers.

The act's provisions for "Pricing and Access to Federal Reserve Services," as described by Fed Board Governor Lyle Gramley, will force the introduction of an interstate EFT banking system. It mandates the Fed to remove itself as the central government institution responsible for providing banks with a national payments system, and encourages the top 100 money center banks to set up competing private EFT interstate clearing systems like the proposed U.S. CHIPS.

"The [dereg] law opens up new opportunities for the private sector to compete with the Fed," according to Gramley, "which will also help increase efficiency. We anticipate—and welcome—competition, not only from [large] commercial banks, but from a variety of private-sector suppliers of payments services. . . . We firmly believe that if private financial institutions can produce and sell payments services competitively more cheaply than the Federal Reserve, the nation may well be better served if they do so."

As Comptroller of the Currency John Heimann said in an Oct. 6 Washington speech, the advent of such private interstate EFT systems will render the McFadden Act and other such protective banking regulations "irrelevant and artificial." "Clearly, the authors of the McFadden Act did not envision automatic teller machines," Heimann told the National Association of Bank Women. "These technological changes will surpass legislative changes in making national banking an inevitability. Further, Heimann said, "the transition to this era will be marked by confusion, increased competition, and probably the disappearance of some institutions."

The Fed's announcement that it will phase out the nation's $10 billion in Federal Reserve float under the dereg bill by October 1982 also promotes this consolidation by removing cheap inter-Fed district float credit to the regional money center banks, prompting them to found and join private interstate EFT systems.

Consolidation through price war

Meanwhile, the Fed and DIDC have used the dereg bill to set off a price war among the smaller commercial and savings banks. The dereg bill was sold to both banking lobbies as a deal where the savings banks and S&Ls are authorized to issue Negotiable Orders of Withdrawal (NOW) accounts that compete with the commercials' checking business. The commercials won a phase-out of the savings banks' legally mandated ability to pay an extra margin of interest to depositors to attract personal savings.

The result is that both sectors are going under. The DIDC, instead of waiting the mandated six years to phase out the protective margin of interest savings banks could pay, phased it out entirely over a 60-day period this year, which the U.S. League of Savings Associations called a "short-term disaster" for thrift institutions. They will lose $17-$20 billion in deposits in the second half of 1980 alone to the large commercial banks.

The smaller commercial banks are faced with a similar loss in checking deposits to the larger S&Ls and savings banks when the NOW accounts go into effect on Dec. 31, 1980. Smaller savings banks won't be able to cash in on this because "the costs of operating NOW accounts will drive them crazy," according to Jerry Gitt, Dean Witter Reynolds financial analyst. "If they try it, the smaller S&Ls will drive themselves out of business."

Similarly, smaller commercial banks won't be able to pay the new higher interest rates to compete for savings banks' savings deposits. "A two-percentage-point increase in interest rate on savings would cut my bank's net earnings by a full 75 percent," said one small commercial banker.

The weakening of thousands of smaller commercial and thrift institutions across the country is supposed to force Congress to accelerate removal of interstate barriers to allow the bigger institutions to purchase smaller banks going under and to remove regulatory barriers that now keep commercial and savings banks from buying each other. "We foresee a general consolidation of the banking industry in which any type of bank can buy any other type of bank across state lines," says John Burke, bank analyst for Atlanta's Robinson & Humphrey.

DOCUMENTATION

Savings League versus the Fed's dereg moves

U.S. League of Savings Associations executive director William O'Connell, in a Los Angeles speech Sept. 22, hit the Federal Reserve hard for implementing the dereg bill's interest rate ceiling phase-out too quickly and simultaneously with a draconian monetary policy which is harming banks and the entire economy. He also questioned the "life and death powers" of the Fed over financial institutions.

The League is currently suing Fed chairman Paul Volcker and the rest of the DIDC for their incompetent actions in this regard, and has legislation in Congress to roll back parts of the deregulation act so that interest rate ceilings are more safely managed. As O'Connell put it:

Deregulation and a new monetary policy—all in the short space of six months. Either one would have been difficult to absorb; tied together they have added up to a prescription for chronic near-chaos in the financial markets. . . . The mistake made by the Congress was to turn deregulation over to the Depository Institutions Deregulation Committee (DIDC), which is dominated by the Federal Reserve Board. . . . [E]ven the greatest cheerleaders of the Fed would have to concede that the new monetary policy has been less than a success.

Interest rates are just as high as when the policy was inaugurated. Inflation psychology is just as deep as it was a year ago—if not deeper.

The Fed's new monetary policy, because it has created a financial environment characterized by extremely volatile interest rates, has proved to be extremely favorable to the commercial banking business and to the growth of money market funds. . . . What has this policy meant? For the saver and investor, it has been an incentive for them to stay short. Even corporate bond maturities have shortened significantly. For the nation's business firms, it has made financial planning impossible because borrowing costs and credit availability swing so widely in short periods. It has also encouraged firms to stay short—thus it has discouraged long term capital investments.

Beyond the present circumstances, *I think it is a legitimate question to ask whether the Federal Reserve does not have too much power. It has not only the responsibility for monetary policy but, through the DIDC, it also has new and effective life-and-death power over all financial institutions. This is, I submit, an extraordinary, unwarranted, and dangerous grant of power to a few non-elected public officials who are not accountable to the electorate of a representative democracy* [emphasis in original].

Superpower showdown looms in the Persian Gulf

by Nancy Coker

The United States and the Soviet Union are on a collision course over the Persian Gulf and the current fighting between Iraq and Iran.

The United States, which was initially caught off guard by the outbreak of the war, has rapidly mobilized both military and diplomatic machinery for a possible direct U.S. intervention into the Gulf, particularly Saudi Arabia. According to reliable information made available to *EIR*, that intervention may include a combination of three options:

First, a direct American military move, with naval and airborne forces, into the Gulf oil-producing states; second, a U.S.-supported coup in Iran that might include an attempt to restore a militarist monarchy there; and third, the opening of a second front against Iraq by Israel, whose government last week issued a series of overt threats to intervene against Iraq and its ally, Jordan.

Moscow, with enormous military capabilities in the area and important allies in Syria, Iraq, and to a more limited extent, in Iran, is publicly signaling its own readiness for a showdown. In the Soviet military daily *Red Star*, an article by Col. M. Ponomarev entitled "Washington Plays with Fire" cites the danger of a U.S. nuclear intervention into the region using American B-52 strategic bombers stationed aboard a flotilla of aircraft carriers at Diego Garcia in the Indian Ocean.

Adding to the danger of the crisis is the covert British intelligence manipulation of the U.S.-Soviet adversary relationship in the Middle East. A recent statement issued by Lyndon H. LaRouche, the former U.S. Democratic presidential candidate, underscores the British role.

"In connection with the current Middle East crisis, British intelligence and its accomplices in Israeli intelligence are at this time supplying the Soviet Union with sensitive, National Security Council-grade policy information," LaRouche has charged.

By leaking accurate and partially accurate information concerning U.S. military contingency plans in the Gulf crisis to the U.S.S.R., the British are deliberately feeding known Soviet beliefs that the United States is planning to deliver a strategic setback to the Soviet interests in the Middle East. The Soviets are said to be particularly concerned about reports of a U.S. military putsch in Iran to restore the status quo ante there.

Target: Europe

In so doing, the British are seeking to trigger a U.S.-Soviet showdown in the Gulf. London, LaRouche has charged, "is now fully prepared to utilize such a U.S.-U.S.S.R. confrontation to cause a political breakthrough against Chancellor Helmut Schmidt in the Federal Republic of Germany and to crush President Giscard d'Estaing in France.

"The immediate object of this British intelligence operation is the destruction of these two political leaders' policy of détente with the U.S.S.R. and of European-Arab cooperation," LaRouche added.

Important in this regard is the sudden renewed prominence in Carter Administration policymaking of Zbigniew Brzezinski and his National Security Council.

Last week, Secretary of State Edmund Muskie let it be known through widely leaked reports that he intends to resign because of his inability to exercise a restraining influence over the hawkish policy of Brzezinski and the NSC.

The hegemony accorded Brzezinski is what has given free rein to Menachem Begin's Israel. The Israeli foreign ministry issued a warning last week that it "cannot sit idly by" while Iraq and Jordan intensify their military cooperation. Begin himself said threateningly, "I have a feeling that he [King Hussein] has made an unwise move." According to several Israeli intelligence sources, Israel is actively considering trying to blockade the Gulf of Aqaba, through which Soviet and other supplies for Iraq are being shipped, via Jordan. Said one Israeli source: "We must stop that foolish little king. He is making the same mistakes that he made in 1967 and must be taught a lesson."

In the same breath, Israel is also targeting the French, accusing Giscard of condoning the recent bombing of a synagogue in Paris. Israeli Foreign Minister Yitzhak Shamir has charged France with promoting anti-Semitism and harboring "neo-Nazi groups working in alliance with the Palestine Liberation Organization"—a charge Shamir admitted he could not prove. In another statement, Israeli foreign ministry spokesman David Kimche pointed to the "profound hostility between France and Israel," adding, "we don't expect anything from the French."

Iran—Israel's undeclared strategic ally in the Persian Gulf crisis—is similarly blasting France. Last week, President Abolhassan Bani-Sadr denounced France for refusing to supply Iran with weapons. "We offered them the position once held by the U.S.," said Bani-Sadr, "and they rejected it."

An 'October flash'?

In this context, analysts in Washington are giving credence to reports that President Carter might be induced—on Brzezinski's advice—to launch a dramatic military adventure in the Gulf region in order to gain electoral momentum. Both Ronald Reagan and George Bush, the Republican candidates, have warned that such an "October flash" may occur in the remaining weeks before the election.

An Oct. 4 release by the U.S.S.R.'s TASS news agency specifically attacked the "hypocritical demagogue" Brzezinski for warning Moscow against intervening in the Gulf while the United States is "positioning itself in order to take part in a demonstration of multination force . . . in the Straits of Hormuz."

A speech last week in Boston by Undersecretary of State Warren Christopher corroborated the Soviet charges. Christopher, reported by insiders to be the NSC's point man in the State Department, issued a not-so-veiled warning that the United States might abandon its public stance of neutrality if the war spreads. If Iraq, said Christopher, tries to seize control of Khuzestan province in Iran, "the nature of the conflict would be fundamentally altered and the danger dramatically sharpened." Christopher then offered military aid to those Gulf states "who feel threatened by the conflict."

One State Department source told *EIR* that if the Carter administration determines that the Soviet Union is resupplying Iraq—something that is to be expected given Moscow's bilateral treaty arrangement with Baghdad—then Washington is prepared to "reassess Soviet neutrality."

Preparing for war

On the ground, the Carter administration is already taking steps to prepare itself for a showdown—a showdown that, by all competent military estimates, will lead to either disaster or the strategic humiliation of the United States given the superiority of Soviet forces in the region.

Following the deployment of the four AWACS to Saudi Arabia last week, the Department of Defense announced the arrival in Riyadh of one of its top air defense authorities, Maj. Gen. John L. Piotrowski, along with staff, to run the AWACS early warning system for the Saudis. Significantly, the responsibility for detecting and alerting the Saudis to an attack lies totally in the hands of the Americans.

Along with Saudi Arabia, efforts to militarily bolster Egypt, Cyprus, and Turkey are also being made. According to military sources, U.S. personnel and materiel tied to the recent Dawn Patrol '80 military exercises were never removed from Egypt following the maneuvers and are currently being beefed up with the arrival of additional planes and men.

In Cyprus, the two British bases there have reportedly entered into a state of war readiness under the operational control of the Pentagon and in cooperation with NATO headquarters in Belgium. U.S. personnel and military forces have been stationed at the two bases (one of which is known to harbor nuclear warheads), and U.S. Air Force Phantom jets, transport aircraft, and bombers have reportedly landed at the bases in recent days.

Turkey is similarly being drawn into the operation. Last week, NATO commander Bernard Rogers arrived in Turkey for his third visit since the Sept. 12 coup d'état. Well-placed military sources informed *EIR* that the focus of Rogers' trip was not so much reintegration of Greece into NATO as it was "negotiating the placement of new facilities in Turkey" and the use of Turkey as a base of operations for actions in the Gulf.

Reports from Washington also indicate that Turkey may be amenable to serving as a launching pad for a military putsch by exiled Iranian officers, significant numbers of whom are reported to be operating out of southeastern Turkey near the Iran border.

Although confident of their military superiority over Iran, Iraqi diplomats at the United Nations last week stressed their fear of superpower involvement in the Iraq-Iran conflict. If the conflict is not internationalized, there is little question that the Khomeini regime is doomed and that Iraq will emerge as the pivotal power in the region and the connection point between Europe and the Arabs.

U.S. maneuvers for Middle East buildup

by Judith Wyer

Following a meeting last week with U.S. Deputy Secretary of Defense Robert Komer, Israeli Prime Minister Menachem Begin became Israel's first head of state to call for a mutual defense pact and to agree to joint military maneuvers with the U.S. At the same time, Begin offered the U.S. base rights at its Etzion airbase on the Sinai.

Begin made his unprecedented offer to Komer to strengthen the U.S.-Israel military alliance at the same time that the Israeli air force allegedly bombed Iraq's nuclear training facility under the guise of an Iranian air raid. Days later, Iraqi Defense Minister Adnan Khairallah declared that Iraq had proof that it was an Israeli and not an Iranian Phantom jet that hit the facility.

Historically, Israel has been the strongest ally of the faction of Anglo-American elites Komer represents, which envisions a provocative military buildup in the Mideast to challenge the Soviet Union on its southern borders. When Komer arrived in Japan on the first leg of his trip last month, he declared that it was his intention to build a NATO-allied international military presence in the Mideast and the Indian Ocean.

Komer, who was personally appointed to the post of Deputy Defense Secretary for Policy by Harold Brown, is the architect of the controversial Rapid Deployment Force (RDF) for the Persian Gulf. Israel, which already has a small arsenal of nuclear weapons, is the prime regional component of the RDF.

A *New York Times* lead editorial on Oct. 9 laid out the need for militarizing the strategic Persian Gulf along the lines of the "strike force" doctrine of Komer. It calls for the United States and its NATO partners to enact an "imperial response" to a colonial legacy, referring to the domination of the Gulf and the Indian Ocean Britain once enjoyed.

> That display [of American warships] has begun with the naval armada now on station near the Gulf. It is to be gradually augmented by the mobile land forces, supplied from assorted bases in the region. Egypt and Israel will become discreet partners and the scare of this war may finally persuade the Saudis to permit a more conspicuous American operation on their soil. The buildup has to continue.

Egyptian President Anwar Sadat, like Begin, gave Komer a warm reception. Shortly after his departure from Egypt, Sadat for the first time publicly stated that Egypt would make available to Europe the same base facilities it has already opened up to the U.S.

The role of General Jones

Komer's tour of the Middle East was followed in less than a week by an American military delegation led by Chief of Staff General David Jones. While Komer discussed the policy of military buildup with various Middle Eastern leaders, Jones consolidated a series of agreements aimed at realizing the policy. During his visit to Egypt, Jones won Sadat's permission to deploy 1,400 American troops to Egypt next month. Egyptian vice-president Hosni Mubarak discussed with Jones plans to expand and upgrade the facilities at the Egyptian base Ras Banas to accommodate future American military deployments to Egypt.

Jones is reported to be personally preparing American maneuvers from Egyptian soil, where the 1,400 American troops will be airlifted to rendezvous with the RDF "under warlike conditions." It is expected that as a result of the Jones-Komer visits to Egypt, the U.S. will send new combat planes to Egypt. Jones also worked out a plan to produce American-designed M-113 tanks in Egypt, according to Egyptian armaments minister Gamal Sayed, who stated that Egypt was negotiating production of other American-designed artillery.

According to well informed U.S. military sources, it was Jones personally who pressured Saudi Arabia into accepting the deployment of four AWACS radar planes shortly after the outbreak of the Iran-Iraq war. These same sources report that certain leading members of the Saudi royal family were opposed to accepting the U.S. equipment for fear that it would invite a super-conflict in the Gulf. Twice in the last two weeks, Saudi foreign minister Saud al-Faisal repeated his concern that the Iran-Iraq conflict could expand to include the superpowers. In an interview with the *Washington Post* Sept. 28, Faisal condemned Carter's bid to create an international naval force for the Persian Gulf and criticized the "logic" which prompted the administration to create the RDF. He termed Washington's headlong rush to militarize the Mideast "overreaction."

Military sources reveal that Jones threatened the Saudis that the outlaw regime of Iran might wage a bombing campaign against Saudi oilfields, something the regime of Ayatollah Khomeini has more than once threatened to do. Shortly after Riyadh agreed to AWACS, the Defense Department announced that the United States would deploy ground radar systems to Saudi Arabia. The decision by the Saudis to increase U.S. surveillance technology came after reports of the bombing of Iraq's nuclear facilities, widely attributed to Israel.

The Defense Department this week revealed that the American military has full control over the sophisticated radar apparatus, with one of the U.S. military's top air defense authorities, Maj. Gen. John L. Piotrowski, and full staff manning the equipment. The deployment of a top-flight team of U.S. military officers to Saudi Arabia represents a major foot in the door for Washington's bid to militarize the Persian Gulf. And Undersecretary of State Warren Christopher this week formally offered American aid to the Arab emirates on the Persian Gulf if the Iran-Iraq conflict expands (see page 37).

Washington has quietly made similar offers to the Gulf states since the outbreak of the war. On Oct. 4, U.S. Ambassador to Bahrain Peter Sutherland and a U.S. military mission held talks with Bahrain's defense minister, Hamad Bin Issa Al Khalifa. The same day, sources in Kuwait announced that the United States had delivered antiaircraft missiles to Oman to enable that country to protect the Straits of Hormuz at the mouth of the Persian Gulf. Just after the outbreak of the Iran-Iraq war last month, Britain sent 500 Special Air Services troops to Oman to "guard the Straits."

A Gulf NATO

The same week the Iran-Iraq war began, the London *Times* cited unnamed sources as asserting that a Persian Gulf military alliance should be established to ensure future security. Lenore Martin, a professor at Boston's Emmanuel College, two weeks later made the same proposal in an editorial for the *New York Times.* Entitled "For a Gulf 'NATO,' " Martin suggests that:

> . . . the United States not only needs to base forces in the Gulf area, it must also develop a regional defense alliance along the lines of the North Atlantic Treaty Organization. Ground forces based in the region would not only be able to respond to crises faster than a Rapid Deployment Force, they would also provide a more tangible demonstration of America's commitment to the security of the Gulf nations.
>
> Doubtless the idea of a Gulf States Defense Organization would at first encounter skepticism in a region wary of great-power intervention. However, it might be palatable to Gulf nations because of the threat to their survival posed by the region's revolutionary powers. . . . Moreover, such a defense organization might include Egypt, which in the past has sent forces into the area, and other Western nations recently mentioned as members of a possible international naval force to keep open the Straits of Hormuz, through which about 60 percent of the world's oil trade passed before the war.

Soviet-Syria treaty a net loss for U.S.S.R.

by Robert Dreyfuss

The treaty slated to be signed between the Soviet Union and Syria during President Hafez Assad's Oct. 8 visit to Moscow does not represent a net gain for the U.S.S.R. in the Middle East. In fact, according to highly informed Syrian sources, it represents a dramatic blunder by the Soviet leadership.

At the same time, Soviet influence in Egypt—where Moscow once reigned supreme—is virtually nil, and despite the existence of a Soviet-Iraqi treaty, relations between Baghdad and Moscow are chilly at best.

But the decline of Soviet influence in the Middle East is not occurring to the advantage of the United States. The real beneficiaries of the simultaneous collapse of American and Soviet presence in the area are primarily Great Britain, and, in a subsidiary sense, Israel.

The Syrian regime with which the Soviet Union is presently establishing a formal alliance is already on a policy track that will soon collapse its authority.

Internally, President Assad is following an almost suicidal course of action. The Assad regime, based originally on a rather narrow section of Syria's population, the minority Alawite sect, has recently narrowed its base even further to the point where it has become a *sectarian regime*. Other than the Alawite sectarian clique that includes Assad, his immediate family, and such figures as Muhammad Haider of the ruling Baath Party's foreign relations department, no one else in Syria has a share of power.

Syrian intelligence, according to informed sources, actually encourages terrorist violence by such movements as the anti-Alawite Muslim Brotherhood secret society. In so doing, Assad believes that he can at once strengthen the cohesiveness of the inner circle of Alawites around him while discrediting his opposition as terrorists and Muslim fanatics.

But Syrian nationalists, merchants and businessmen, and Sunni Muslim moderate currents have all been shut out of power by the Alawite clique. It is an explosive situation most observers think cannot last.

In supporting Assad, the Soviet Union is therefore making two related blunders. First, they are associating Soviet prestige with an isolated regime; by helping to maintain Assad in power, the Soviets are viewed as furthering their own interests, not necessarily Syrian ones. Many Syrians are upset about reports that KGB advisers, including torture specialists, are assisting Syrian security officials. Second, the Soviets are de facto collaborating with the policy of sectarianism in the Middle East, which carries great risks of instability for virtually every Middle East country.

The policy for increased sectarianism and tribalization in the Middle East is a long-time Anglo-Zionist policy objective. In more recent years, it has been organized under the code name "The Bernard Lewis Plan," after Princeton's Professor Lewis, an Oxford University British intelligence specialist on Islam and minorities. Informed Syrian sources say that because of Assad's shortsighted policy, the possibility exists that a Lebanon-style civil war could erupt within Syria and spread to other Arab states, as well as Turkey.

For the Soviet Union, the architect of that policy is Mr. Kim Philby, currently a KGB general and very active in formulating U.S.S.R. Middle East policy. Philby, who defected to the Soviet Union in 1963 after supposedly serving as a Soviet double agent in British intelligence, is in fact still a serving officer of London's secret service. For many years, until 1963, Philby was active in Lebanon, Syria, and the Arab world, among contacts delivered to him from his famous father, St. John Philby, the "Philby of Arabia" who helped to set up the Muslim Brotherhood.

The Syrian government's recent attacks against Iraq, Jordan, and Saudi Arabia, and the deliberately provocative Syrian stance on the Palestine question—for instance, Syrian Foreign Minister Khaddam's foolish call to expel Israel from the United Nations, a call that dismayed many Arabs—reflect the "Philbyite" anti-West confrontationist posture. This posture suits the interests of a certain, militant faction of the Soviet leadership.

Who benefits?

To the extent that the Soviet Union and the United States are placed on a confrontationist course in the area and regional stability is undermined, then the possibility of stepped-up European-Arab cooperation, along the lines suggested by France and West Germany, is eliminated. In that context, only the British—who have long been set on undermining the "Paris-Baghdad-Riyadh" axis—and the Israelis gain.

Mossad faction targets France

by Dana Sloan

The current series of neo-Nazi bombings and acts of terrorism in France, which has profoundly shaken the country, is seen by counterterror experts in the United States and Europe as a move unleashed from the outside, with the objective of creating a broad upheaval against the French president, Valéry Giscard d'Estaing. On a secondary level, the objective of the bombing is to create a highly charged atmosphere among European Jews to foster support for the policies of Israeli Prime Minister Menachem Begin's government.

Operations put into motion over the last few months by a number of intelligence agencies, including the Israeli Mossad, have succeeded in setting off a process of mass street demonstrations and creation of self-defense vigilante groups in France's Jewish community. The mass demonstrations in Paris and other cities this week coincided, in fact, with an official Israeli defense cabinet declaration on "the right and duty" of Jews to form self-

Eight thousand in Paris protest terror Oct. 2. Photo: Wide World defense squads against real and imagined anti-Semitic elements, a declaration that followed by a day Begin's interview with UPI denouncing European efforts in the Middle East as an anti-Israeli policy responsible for the terrorism.

Begin's statements served as an international signal for the anti-Giscard operation. New York's mayor, Edward Koch, jumped into the headlines Oct. 7 when he declared before the French-American Chamber of Commerce in New York City that President Giscard's Middle East policy would "ultimately lead to genocide." Koch accused Giscard of "encouraging terrorism," "delivering Jews to the PLO," and made the distorted claim that during World War II, "the French people and the government delivered French Jews to the Nazis."

As Begin and Koch themselves acknowledge, their target is Giscard's active involvement in fostering a Middle East peace package based on Israeli withdrawal to its 1967 borders, with international guarantees of those borders, and creation of some sort of genuine Palestinian homeland. A Middle East peace, combined with stabilized oil prices, is, in the eyes of the Giscard government, the most important prerequisite for a thorough overhaul of present petrodollar recycling and energy policy toward transfer of nuclear and other high technology to the Third World.

Political alignments

At stake in the current upheaval is the second presidential term Giscard needs to bring his international economic plans into operation.

The French Socialist Party (SP) has taken a leading role in seeking to oust Giscard, and has openly mobilized its supporters for the Oct. 7 demonstration with a call for Interior Minister Christian Bonnet to resign, and for a general reorganization, that is, purge, of the French police.

Speaking for the hard-line Zionist organizations in France, Maurice Hadjenberg, leader of the Renouveau Juif (Jewish Revival) group, announced that the Rue Copernic bombing has put an end to the "truce" between the government and the Jewish community, and that his organization will do everything to defeat Giscard in the presidential elections this spring. Hadjenberg is known for his close ties to Begin's Likud Party in Israel.

The Socialists have also tried to pressure the French Communist Party (PCF) into a common opposition stance around the anti-Semitism issue, demanding in fact a renewal of the Union of the Left between the two parties. So far, their success is uncertain. While the PCF and all responsible organizations in the country, including the parties that most directly back Giscard, are united in condemning the recent wave of anti-Semitic violence, many of them are refusing to be used as pawns against Giscard's government.

The PCF and its affiliated trade union, the CGT, participated in the demonstrations, but the CGT announced that it was demonstrating against "all forms of racism, including anti-Semitism," and not for the government's ouster. And in a sharp response to the Socialists' argument that the PCF is responsible for the resurgence of Nazism because of its withdrawal from the Union of the Left, the PCF's daily, *L'Humanité,* ran a stinging editorial Oct. 7 recalling the Socialist Party's direction of the war in Indochina and in Algeria, and its jailing of PCF members of the opposition. *L'Humanité* equated these Socialist actions with opening the door to fascism. Spokesmen for Giscard's Republican Party warned at the same time against "forces who are trying to transform this affair into an evil political manipulation."

Within the Jewish community, traditional Zionist organizations led by Guy and Alain de Rothschild have emphatically rejected Renouveau Juif's call for the creation of armed "self-defense" militias, and have warned that the real intention of the "criminals" who carried out the terrorist attack is to "shatter French society" as a whole.

The conduct of the Paris demonstration was further evidence of the difficulties the Socialists and Begin partisans among the Zionists are encountering in trying to build an effective force to disrupt Giscard's reelection. Fist fights broke out among participating marchers over what position their organization would take in the line. PCF leaders announced they supported a police cleanup and the resignation of Interior Minister Bonnet, but also accused the SP of lying in its claim that the PCF had agreed to demonstrate on common grounds with the Socialists. And Alain de Rothschild did not march with the Renouveau Juif, which was sent to the rear of the demonstration.

Despite widespread media efforts to intensify hysteria over anti-Semitic violence and to portray the Paris demonstration as keyed to that response, such characterizations are being significantly deflated in France. The French daily *Libération* downplayed the issue of anti-Semitism as such, and stressed that in France anti-Semitism is always the product of anti-republicanism, and never the reverse.

Perhaps the most important statement of all came from Simone Veil, president of the European Parliament in Strasbourg and a highly respected figure in the French Jewish community. In an interview over radio RTL, she stated her firm conviction that "one can be anti-Zionist, that is to say, opposed to the present policies of the Israeli government, without being anti-Semitic." Simone Veil speaks from the standpoint of one whose family members were all sent to their deaths in Hitler's concentration camps.

West Germany

Strauss's stature shrinks with vote

by Michael Liebig, Contributing Editor

The following article was filed with EIR's *Wiesbaden bureau on Oct. 8.*

The results of the Oct. 5 election in the Federal Republic of Germany are double-edged. On the one hand, the West German population made it unmistakably clear that it does not intend to have itself represented by the person or the politics of Franz-Josef Strauss. But the victory for Helmut Schmidt is far from unequivocal. Difficulties for Schmidt are going to increase, issuing from the left-"greenie" forces in his own Social Democratic Party (SPD) and from the significantly strengthened liberal Free Democratic Party (FDP). Nevertheless, for the moment the political basis is secure for continuation of the Franco-German policy of war avoidance.

On the average, the losses for the CDU/CSU and their chancellery candidate Strauss ran at 4.1 percent in the federal elections. Around 2.1 million voters of the CDU/CSU from the 1976 elections either did not vote, or voted FDP. With these worst of all results since 1953 for the CDU/CSU, Strauss's national political career may be considered at an end.

CDU/CSU losses in general swung over into votes transfered to the favor of the FDP, and this was the essential factor in the "balanced" victory of this party, with 10.6 percent for these 1980 elections, a gain of over 3 percent compared with only 0.3 percent for the SPD. The FDP is being declared the real winner by the Anglo-American press, and played up against Schmidt.

Why the FDP gained

It is a fact that many former CDU voters who wanted to keep Schmidt as chancellor, but did not want to vote for the antitechnology SPD under Willy Brandt, gave their votes to the FDP. The FDP's personnel and program are far too amorphous and contradictory to be inherently attractive to even 10 percent of the voters.

At the same time, many committed SPD voters and Schmidt followers voted FDP, in order to make sure that the FDP did not slip below the 5 percent line, which would have disqualified the party from the Bundestag. Five months ago the FDP lost its seats in the state election in the densely populated state of North Rhine-Westphalia.

In judging political events in the Federal Republic, it is crucial never to forget the immense influence exerted in West Germany by Anglo-American factions, whose "assets" are powerful in all political institutions and parties.

The original Anglo-American script called for a Strauss victory. According to this plan, the FDP was to have slipped near or below the 5 percent line, while the "green" party was to have captured over 5 percent. This script fell apart, on the one hand due to counterpressure and resistance on the part of Schmidt and broad circles in German industry, and also due to the fact that it turned out to be impossible to sell Strauss and the greenies to the West German population. This summer saw hectic traffic by German political managers to the United States; after meetings with Brzezinski and others, an understanding was reached, primarily between the Anglo-American "assets" in the three German parties. The script changed, dumping the greenies and strictly excluding the Europäische Arbeiterpartei (EAP) from the official electoral arena. Suddenly the greenies disappeared from the media. The word then went out from the CDU/CSU, SPD and FDP: secure the three-party system, to preserve a "commonality of the democrats." The precarious existence of the FDP was taken off the list of public issues. The Anglo-Americans let it be known that they would accept the likelihood of Schmidt's reelection, under the condition that a strengthened FDP hold him in check.

Helga Zepp-LaRouche

Thus the election proceeded in a lukewarm, boring fashion, despite Strauss's angry slanders against Schmidt. This setup created extremely negative circumstances for the campaign of Helga Zepp-LaRouche, leading candidate of the EAP, containing the impact of television appearances in which she aggressively addressed basic questions of national policy like securing détente against the policies of the Carter administration, expanding nuclear energy development and smashing the proliferation of drugs. She succeeded in achieving extraordinary recognition and political sympathy among the population. Zepp-LaRouche was acknowledged in leading industrial circles as an exceptional leadership personality for the future. Nevertheless, restricted media coverage and a nearly hysterical effort by the other parties to keep the EAP on the sidelines could not be broken.

Schmidt is going to have trouble in the immediate future with the FDP and the SPD's environmentalists. The FDP's influence ought not to be overestimated, however; the FDP has its coalition with Schmidt to thank for its electoral gains and its continued existence.

 by Josefina Menendez

The case of Mr. Juan Eibenshutz

The head of the National Energy Commission looks like the first casualty as a more pronuclear energy plan takes hold.

On the eve of the unveiling of Mexico's new National Energy Plan (PNE) Oct. 14, a shake-up in the government energy planning area gives some important clues as to the winners and losers in a major behind-the-scenes planning fight.

The big loser is Juan Eibenshutz, head of the National Energy Commission. He woke up Oct. 1 to find that he had been kicked upstairs to a management post in the Federal Electricity Commission. According to friends, the change came as a *fait accompli.* Eibenshutz had made a name for himself as a determined environmentalist and "solar-ólogo," as the big solar-energy boosters are known here.

The winners include the pronuclear forces in energy planning. According to numerous sources, the Energy Plan will give a strong boost to nuclear. And one of the primary authors of the plan, Adrian Lajous, Jr., was named to take Eibenshutz's post.

A consultant for the U.S. Department of Energy passing through here last week reports he could feel which way the wind is blowing from the Mexican response to the DOE proposal that a world-scale solar energy demonstration project be conducted in Mexico jointly with the DOE and the U.S. Congress. "You may find yourself in competition with nuclear for funds," he was told. The priorities in the new plan for energy sources are nuclear, hydro and geothermal—not solar.

The Energy Plan should also be a boost for the "rapid growth" advocates in the cabinet, led by Industries Minister de Oteyza, over the "slower growth" faction headed by Finance Minister David Ibarra. One principal drafter of the PNE, Vladimiro Brailowski, had earned his spurs designing the 1979 high growth National Industrial Development Plan (PNDI) for de Oteyza.

The fall of Eibenshutz from the Energy Commission post damages a deeply rooted faction in energy planning here, which under a nominal "pronuclear" cover has in fact done everything possible to shift Mexican energy policy into a replica of the disastrous policies followed by the Carter administration.

Fernando Hiriart, the Undersecretary for Mines and Energy in the powerful Resources and Industrial Development Ministry (Sepafin), took over his post in 1977 with remarks like: "Mexico must not imitate foreign models of industrial development. We should follow instead a road of appropriate technologies. . . . The traditional 8 percent growth of the electric sector must be slowed down to 6 percent. . . . We must save energy."

It was Hiriart who appointed his sidekick Eibenshutz to the Energy Commission post. Immediately, a series of seminars, publications and publicity campaigns were issued from the commission around the theme of energy conservation.

In 1978 discussions with the Mexican Fusion Energy Association (AMEF), Eibenshutz strongly defended the dean of European environmentalism and antinuclear campaigns, Count Otto von Hapsburg. "I know him personally and he is a very close friend of mine indeed," he stated.

Eibenshutz also told the AMEF that Pemex director Jorge Díaz Serrano was a disaster for Mexican energy policy: "He augmented the reserves magically. He is overexploiting the wells. . . . He knows nothing about energy."

Abroad, Eibenshutz collaborated closely with the Workshop on Alternative Energy Systems (WAES), run by U.S. Trilateral commissioner Carroll Wilson. The WAES report was conceived to provide academic rationale for Carter's incompetent antinuclear and conservationist policies.

But other officials, serious about developing Mexico's nuclear potential, shaped President López Portillo's May trip through France, West Germany, Sweden and Canada around the nuclear technology theme. López Portillo himself, during the trip, aggressively defined nuclear as "the most important" energy source worldwide to replace oil in the 21st century.

When senior politician Hugo Cervantes del Río was axed as head of the Federal Electricity Commission in June, the hubbub focused on generating capacity failures that came during a period of drought. What may have been equally significant is that Cervantes, an indifferent advocate of nuclear, was replaced by Alberto Escofet Arigas, a major pronuclear spokesman. Ironically, Eibenshutz's new job puts him under Escofet's thumb.

International Intelligence

Ambassador coaches Italian Socialists

U.S. Ambassador Richard Gardner is reportedly directing Italian Socialist Party (PSI) leaders Bettino Craxi and Sandro Pertini to forestall the re-emerged prominence of former Christian Democratic (DC) Premier Giulio Andreotti, following the resignation of the PSI-allied Cossiga government Sept. 27. PSI Secretary-General Craxi has laid down to DC premier-designate Arnaldo Forlani conditions for his participation in the new government: that Andreotti be kept out of the DC party-presidential post and also the government's foreign ministry, or Craxi will force a destabilizing round of new elections.

Andreotti, along with certain PSI figures who bucked Craxi to topple the last government, favors an increased role for the Communists in the new government and an independent "Europeanist" Italian policy.

PSI president Pertini meanwhile has threatened to install a government of "technicians," should Forlani fail in forming a government. Reforms would turn the Italian Senate into a figurehead House of Lords-type body and upgrade the premiership with powers to dissolve parliament and call new elections.

Gierek allies purged from party posts

After three days of heated debates, ten top officials of the Central Committee of the Polish communist party were purged Oct. 6. Seven of the ten are considered close associates of former Polish leader Edward Gierek.

The purge at the Central Committee level is seen as a consolidation of the anti-Gierek faction led by Stefan Olszowski and other economic reformers. A rival and critic of Gierek's rapid industrialization policy, Olszowski was reinstated to the Politburo at the height of the labor unrest this summer.

Up to last weekend's plenum meeting of the Central Committee, the 150-member group was split on the issue of how to deal with the "Solidarity" labor federation of the newly-created independent trade unions. Even among Gierek's opponents, there are indications that differences are not yet settled.

Anglicans blamed for Nicaragua riots

Five foreign Church of England ministers, two of them Canadian, were deported from Nicaragua this week, charged with inciting riots that occurred in the isolated eastern port city of Bluefields a few days before.

During the antigovernment disturbances, demonstrators seized control of sections of the port city, including the local radio station, airport and main dock as part of their protests against "Cuban influence" in Nicaragua. In the most serious incident since the establishment of the new government a year ago, the demonstrators reportedly threatened to burn houses and stores of those who did not join in the protests.

In an official statement on the riots, the Nicaraguan government charged the incident was planned as the first in a series of similar riots set to coincide with the visit of the Interamerican Commission on Human Rights to begin Oct. 5.

Dane advises Brzezinski on strategic impulses

Vincent von Robson, son of the well-known Countess von Robson, released a statement Oct. 2 from his Copenhagen residence on National Security Council director Zbigniew Brzezinski's psychological state. Mr. Robson successfully conducted an in-depth, face-to-face psychological profile of Mr. Brzezinski in 1976 using his Swedish free-lance journalistic pseudonym, Stig Hamrin.

Mr. Robson, informed of NSC director Brzezinski's recent statements on the Persian Gulf crisis, and specifically that "Washington has the ability to project American power into the Persian Gulf," made the following comment:

"From my privileged inside knowledge of Mr. Brzezinski's mind, so to speak, I am able to recognize the deeper levels of significance in such statements referring to 'projections of American power.' I therefore heartily recommend that Mr. Brzezinski, whenever the impulse takes him in the future to make similar statements, proceed in the following manner: enter the nearest dark closet and masturbate until he is fully, totally exhausted. After which the rocking-chair strategist can reevaluate his earlier impulses.

"I am convinced," concluded the respected Danish journalist and psychologist, "that this course of action will lead to 1000 percent improvement in American national security."

Saudi Arabia hikes its oil output

Saudi Arabia has increased its oil production by 1 million barrels a day to a record 10.5 mbd to offset the shut-off of oil exports from Iran and Iraq. Saudi Arabia's decision to step up its oil exports was taken almost immediately after the war began. Before making the decision, the Saudi leadership conferred with a delegation from Iraq, which asked for the output increase. About the same time, Iraqi foreign minister Saadoun Hammadi was quoted in a Kuwaiti newspaper bidding other Gulf states to boost oil production.

Since then, Saudi Arabia has concluded a series of agreements with nations like Brazil, which heavily depend on Iraqi crude, to supply them until Iraq exports come back on stream.

As Riyadh boosted production, Saudi oil minister Yamani has reportedly convinced Saudi Arabia's neighbors, Kuwait and the United Arab Emirates, to increase their own oil exports, so that the three countries together will hike their exports by a total of 3 mbd, the total amount of crude lost due to the Gulf conflict.

Since the beginning of the year, Saudi Arabia has maintained its production level about 1 mbd above its traditional 8.5 mbd production ceiling, in order to feed the massive oversupply of crude oil on the world markets. The "glut" of crude is estimated to outstrip world crude demand by about 2.5 mbd. Riyadh expects to force those OPEC members who price their crude at or above the $37-a-barrel price ceiling to lower prices. Even without an increase in output by OPEC producers, it would take months before the shutdown of Iranian and Iraqi crude exports would be felt.

World stockpiles are at a record high, estimated to meet world petroleum demand for over three months. At the same time, that demand continues to decline due to the economic downslide. By increasing output, Saudi Arabia and its allies are seeking extra insurance that Riyadh's tactic of "flooding the market" wil force upper-tier OPEC oil prices to come down to Saudi Arabia's $30-a-barrel level by the end of the year.

U.S. seminar discusses policy for Africa

The Ad Hoc Committee For a New Africa Policy held a working seminar in Washington, D.C. on Oct. 9 to discuss how Americans can reverse the famine and drought sweeping black Africa. In attendance were representatives of the American Agricultural Movement, National Black Women's Political Leadership Caucus, African Methodist Episcopal Church, and four African embassies, as well as delegates from food processing and shipping associations and several other industry groups.

The meeting was addressed by Hulan Jack, former Borough President of Manhattan, and Christopher White, *EIR* Contributing Editor, both directors of the ad hoc committee. Discussion responses included a description by the head of the National Agricultural Aviation Association of his experiences as a consultant in Ethiopia, and the past and present political obstacles to investment there.

Representatives of food processors and shippers confirmed the speakers' charge that the U.S. PL-480 "Food For Peace" program is funding guerrilla bands. Members of Operation PUSH initiated discussion of alternate financing methods to replace the IMF/World Bank.

North Korea, China Supply Iran

U.S. Treasury Secretary G. William Miller charged this week that the North Korean regime was supplying arms and other supplies to Iran. Reuters reported in a followup that the Iranian Boeing-747 cargo planes were in fact going via Pakistan and China with the permission of both countries. The planes are reported to be refueling in Pakistan, which supposedly is acting as a mediator in the conflict between Iran and Iraq.

South Korean sources confirm the report of North Korea's supply role but say that they have no evidence that it involves arms—more likely, they say, it is medical supplies, uniforms, and similar matériel. Pyongyang, they point out, has received 100,000 tons of oil from Iran this year and may be looking for more. They do admit the possibility that the real move is from Peking with whom the North Koreans maintain close ties.

The upshot so far, however, is that the North Korean role does not explain anything in terms of military supplies known to be going to Iran—under any circumstances Pyongyang has Soviet and Chinese equipment, not American, as does Iran. Observers suggest the Korean story was leaked in Washington to obscure and conceal Israeli and U.S. covert supply to Teheran.

Briefly

- **EUROPEAN** agricultural ministers have placed an across-the-board ban on the use of synthetic hormones in livestock raising, in the wake of a media "carcinogen" scare. The move could set a precedent for a total ban on synthetic feed additives in the United States.

- **SPANISH** Premier Adolfo Suarez diplomatically indicated that Spain is in no hurry to join NATO at a press conference last weekend. There is no timetable set, he said, and the government would have to be assured of a strong parliamentary majority in favor of membership.

- **ALBERTO ESCOFET** Arigas, head of the Mexican Electricity Commission, told reporters recently that nuclear energy is safer than "taking a bath, slipping, and killing oneself." If Mexico wants to generate more electricity, he said, it will have to fully elaborate its nuclear energy program very soon; "There is no alternative." Mexico presently plans to build 20,000 megawatts of nuclear electric generating capacity before the year 2000.

- **L'UNITA,** newspaper of the Italian communist party, ran an editorial Oct. 9 denying that democracy is "unworkable," and attributing the idea to the Trilateral Commission, Prof. Samuel Huntington of the National Security Council, Milton Friedman, and British Prime Minister Margaret Thatcher.

- **THE INDIAN** government described U.S.-led efforts to introduce an international naval force into the Persian Gulf as "a dangerous move." On Oct. 3, a spokesman for the Indian foreign office was quoted by Agence France Presse as stating that the effort carries "the risk of further escalation of the conflict" and could thus effect the reverse of its declared objectives.

The game plan for the November elections

by Criton Zoakos, Editor-in-Chief

Throughout the United States, both opinion polls and newspaper commentaries are virtually unanimous in the report that Governor Reagan is maintaining a comfortable lead over President Carter in terms of popular preference. A breakdown of this preference on a state-by-state basis indicates, we are told by the *New York Times*, CBS, the Harris Polls and others, that Governor Reagan has an ever greater lead in terms of electoral college votes. The latest such projection gives Reagan a generous 357 electoral college votes, while only 270 are needed to declare a winner.

However, contrary to this public game of perceptions, the perspective in the influential back rooms in both Washington and New York is that Jimmy Carter will definitely be re-elected in November. Leading individuals in these back rooms, including individuals responsible for projecting a pro-Reagan tilt in opinion polls and newspapers, are firm in their privately held expectation that Reagan will be defeated. They are probably correct, for reasons that the average member of the reading public would not suspect.

To summarize the case, the 1980 U.S. presidential election will be one of the most spectacular vote fraud and vote manipulation operations in political history. It is important at this time for serious citizens of this republic to take the blindfolds off and develop an understanding of the techniques that will be employed this November.

First, geographically, the following picture obtains: California, with its huge number of electoral college votes, is conceded to Reagan by everyone, incuding all Carter strategists. Since more of the average-sized states west of the Mississippi will vote Republican, the Reagan-Carter contest will be waged in the key states of New York, New Jersey, Pennsylvania, Ohio, Illinois, Missouri, and the Gulf Coast "arc" of Florida, Mississippi, and Texas.

Apart from areas of solid Carter support, which are very few at this time, Carter will have to win two tiers of states which are now described as (and probably are) "a tossup." These are the Gulf states that share the Gulf of Mexico from Texas to Florida, and the Great Lakes states that share the coast of the Great Lakes.

Current indications, e.g. the Florida primaries, the Texas opinion polls, and soundings of public sentiment in Louisiana, indicate that Reagan is leading, and moreover, the Carter effort is stalled. Similarly, in Illinois, Ohio, New Jersey, Pennsylvania, and Missouri, a total of 107 electoral votes.

As of the evening of Oct. 8, the Carter campaign strategists launched a series of moves, beginning with President Carter's attempt on national TV to make a personal reconciliation with Reagan. The moves indicate that the strategy in the last three weeks of the campaign will be to craft an image in the public's eye of an underdog President catching up from behind Reagan and exploding into a victorious finish in the last two or three days before election eve. This "imaging" of the race will be necessary for the perpetration of an orgy of vote fraud on election day. That machinery is now being put in place.

Two other general preconditions are required for this vote fraud to succeed. First, a general climate of voter disgust and apathy, to drive the public as far away from the polls as possible; second, a deliberate demoralization of the Reaganite grass-roots rank and file. Both are now in place.

This election year more than any other within memory is characterized by what demoscopic experts call "voter apathy." In fact it is not apathy, but downright disgust and antipathy for the ridiculous presidential choices the voters have been boxed into. Just as during the primary season, that percentage of the electorate which will definitely go to the polls is made up of citizens who have very strong objections to either of the two candidates. In short, there is no significant pro-Carter vote, but there is a powerful anti-Reagan vote. Conversely, since Reagan capitulated to selecting George Bush for his running mate, the preference for Reagan has been replaced by the outrage and hostility to Carter as the determining factor in Republican vote-getting.

The entrapment of Reagan

The mammoth grass-roots movement which in late 1979 and early 1980 mobilized to ensure Reagan's Republican nomination is now demoralized and fractured. Its regional and state leaders are virtually totally excluded from participation in the Republican presidential campaign. Reagan's election machine right now is controlled by those leaders of the Republican Party who until one week before their party's convention were scheming to deprive Reagan of the nomination. The anti-Reagan wing of the GOP has incomparably greater influence in determining campaign policy than the GOP grass-roots leaders who led their legions in the spring and summer against the blue-blood controllers of their party.

Take for example Texas: after Bush's inclusion in the GOP ticket, the state chairman of the Reagan campaign, a respected conservative with 36 years of involvement in national politics, was tossed aside and now Governor Clements and ex-Governor Connally are heading the get-out-the-vote organization for Mr. Reagan. The head of the Reagan volunteers organization has also been purged. The people who delivered the Reagan vote in the primaries have been routed within their party even after they succeeded in imposing the candidate of their choice.

This critical circumstance will determine the quality of Reagan's get-out-the-vote organization on election day. Its quality is going to be very poor. Mr. Reagan's movement has already been smashed! Without that movement, Reagan can carry the traditional Republican states but cannot win the election. To win he will need that now-demoralized movement, to change the political chemistry in the Gulf of Mexico tier of states and in the heavy industry belt surrounding the Great Lakes. In short, Reagan needed his movement in order to rally and organize the social and political forces in labor and ethnic groups which once constituted the Wallace movement. Without those forces he cannot break through in traditional Democratic states, and without his GOP grass-roots movement he cannot have those forces.

Although defeated, the Reagan movement of the earlier part of the year is still moving and having a certain impact, but this is on the basis of its earlier, now stalled, momentum. In the political pro's parlance, it has "peaked early." Namely, it "peaked" when Governor Reagan accepted Bush as his running mate. After the convention, a senior conservative personality asked Reagan, "Why on earth did you accept Bush?" Reagan replied: "*They* told me that if I didn't go along with Bush, I would not get elected President." "They" were Max Fisher, Henry Kissinger, Gerry Ford, and certain New York bankers.

Vote fraud coming

Preliminary surveys in certain features of election preparations in Eastern states indicate that a massive vote fraud operation is afoot on behalf of Jimmy Carter. In states where the voter registration deadline is approaching, various individuals associated with ghetto political machines and certain trade union networks, are turning in voter registration post cards literally by the hundreds of thousands. There was no previous evidence of any drives to register new voters in such areas. If court findings on the 1976 vote fraud are any indication, we are now witnessing the registration of fictitious voters by the high hundreds of thousands and probably by the millions. In 1976, courts in Ohio, New York, Michigan and elsewhere verified that extensive vote fraud had occurred on the basis of hundreds of thousands of registrations of nonexistent persons, some under such names as "Thomas Jefferson," etc., whose home addresses corresponded to vacant lots, abandoned buildings, cemeteries and parking lots.

This fictitious data base of registered voters is necessary for subsequent manipulations of the vote count by bribed or otherwise corrupted tallying officials in most cases interfacing with journalists or TV network personnel deployed at the polls as part of the Election News Service, the only nationwide tabulating service for the vote count. Under this general type of vote tabulation and reporting, vote fraud is possible only if 1) voter turnout is low, 2) fictitious voter registration is high, 3) the get-out-the-vote and pollwatching machines of the political candidates are weak or nonexistent.

All these conditions have been achieved at this time, a mere three weeks before election day. During this period, the Carter campaign and the mass media will be imaging an incremental but accelerating "comeback" of an "underdog" President.

National security doctrine for the Philip Agee case

by Lyndon H. LaRouche, Jr. Chairman, National Advisory Committee, National Democratic Policy Committee

The following memorandum was issued Oct. 4 by the National Democratic Policy Committee:

Many members of Congress share my anger at the fact that the pro-terrorist former CIA employee Philip Agee has not served time in federal prison.

Instead, Agee has roamed the world like a modern Aristotle, mysteriously protected from prosecution, and most recently given immunity from prosecution by Attorney General Benjamin Civiletti.

Apart from his pro-terrorist activities, Agee and his confederates have targeted U.S. operatives for assassination. The Athens murder of Richard Welch sticks in the craw. Col. Mitchell L. WerBell, my security adviser, and I have been targeted similarly by the same networks in which Agee is a part, and this targeting of WerBell and myself has been conduited into the pages of a relevant Soviet intelligence community publication, *New Times* (an internationally distributed multi-language newsweekly) in its Aug. 25, 1980 issue.

I share the righteous anger of many members of our intelligence community against both Agee's antics and those in high places who provide international protective screens of immunity from legal action to Agee and his accomplices.

The point to be emphasized to lawmakers is that Agee and his accomplices have violated *existing law.* Agee violated his employment contract. The Carter administration has prosecuted Frank Snepp on this account, but the Carter administration has extended immunity to Agee. Agee has not merely violated a contract with an agency constituted under the National Security Act, he has flagrantly advertised his willful and sometimes bloody breaches of security.

The issue properly before the Congress is inquiry into the reasons *existing law* has not been enforced.

The Agee case viewed more broadly is an aspect of the process leading into the 1977 slaughter of the intelligence-gathering capability of the Central Intelligence Agency. This correlates with a more recent stripping of antidrug intelligence capabilities including the vital Paris liaison office.

During recent weeks, a massive effort has been deployed to the effect of diverting the Congress's attention away from the relevant investigation of administration policies and policymakers responsible for misfeasances in the Agee CIA-wrecking and DEA-wrecking instances. A string of mixed fact, half-truths and barefaced "black propaganda" lying has been conduited into the ears of the Congress. This lying to Congressmen from such tainted sources is directly correlated with a proposal that instead of an appropriate congressional investigation of tainted administration policymaking, the Congress should enact a *flagrantly unconstitutional* imitation of the British Official Secrets Act.

The "black propaganda" being rumored include the following:

1. That National Security staffer David Aaron might be, in effect, a "Moscow mole."
2. That a "Moscow mole" is behind the "Trigon" case.
3. That the Carter administration's election-campaign period bragging about a "Stealth plane" project might be the work of a "mole," possibly Aaron.

Although I have never been an employee or contracted agent for the CIA or any other intelligence service, I do have special qualifications of expertise in the area of the matters identified above.

As the recent case of the cited Moscow *New Times* article merely illustrates, I have been frequently the target of operations played against me from or through the conduits of the Soviet State Security Agency (KGB). I have also been the target of similar operations either originating with or conduited through the Soviet Communist Party's foreign intelligence entity IMEMO, as well as its U.S.-Canada Institute offshoot.

This bears in important ways on the subject of "moles." The cases of KGB General "Kim" Philby and the role of his confederate Maclean, a key figure of IMEMO, are relevant. In a number of instances, including the cited article in *New Times*, the KGB or related sort of operation against me has originated in intelligence-relevant Western circles such as Anglo-Canadian "private" intelligence agencies associated with the London *Economist.*

The ability of certain very influential Western circles to play operations through high levels of the KGB and IMEMO implies a "purchased" credibility and related forms of influence through what Moscow views as intelligence-relevant "favors" delivered by the entities exerting such influence with the KGB and IMEMO. Philby's conduiting of highly sensitive U.S.A. information to Moscow is exemplary—as is also the failure of U.S. counterintelligence entities to follow through the investigation of Philby at a critical time.

In addition to such experience and related knowledge, my increasing repute as an economist especially since spring 1975 affords me access to privileged circles.

For almost a decade, I have been a regular participant in daily evaluations sessions for what has become a significant specialist variety of international news service. This newsgathering activity, combined with daily executive responsibilities for related strategic and tactical evaluations of important patterns of global and national developments, provides me with expertise in areas bearing on intelligence and counterintelligence evaluations.

In recent years, my principal areas of topical concern have included anti-terrorist and anti-drug intelligence. These two matters are highly interconnected in several respects. As has been proven by successful actions of Italian and French security services, illegal drug traffic and the infrastructure of terrorist logistics have a significant overlap.

The distinctive feature of my special expertise in economics and my related involvement in promoting high energy flux density modes of energy technologies, provides me with relevant resources for evaluating the science-technology side of logistics, and access to knowledge of the relative state of the art and the economic side of such capabilities of various countries. This bears on matters of national security policy, including matters directly pertinent to the subject of this briefing.

With aid of those and related advantages, I provide this report to members of Congress and to relevant other persons and institutions.

I. Congress's first task

The first task of a competent congressional investigation is an inquiry into the crucial features of the process leading into the mid-1977 gutting of intelligence-gathering capabilities of the CIA.

The crucial points include the following:

1) The conduiting of the assault upon the CIA through the Yippies, and the past and present links of the Yippies to intelligence organizations, including foreign intelligence organizations deployed inside the United States.

2) The continuing role of the Institute for Policy Studies and its associated entities in this project, including the Agee-linked Counterspy entity, and the substantial funding of Counterspy by so curious a choice of backers of a nominally "left-wing" project as the Lilly Endowment.

3) The continuing role of a former close National Security Council associate of Henry Kissinger, Morton Halperin.

4) The weakening of the CIA, accomplished with aid of the shift in emphasis of administration of the national security community with Henry Kissinger's appointment as National Security Adviser.

5) What influence upon and within government afforded Philip Agee de facto immunity from prosecution under successive administrations, including the recent action of Attorney General Benjamin Civiletti in this matter? What is the explanation of the coherence among the related actions of Civiletti in (a) recommending the pardon of four unrepentant terrorist assassins, (b) granting Agee immunity from prosecution, (c) dropping prosecution against the Weathermen terrorists?

6) An in-depth inquiry into the actions launched during 1977 which, in effect, gutted the CIA's intelligence-gathering capabilities.

7) The increased dependency upon foreign intelligence entities resulting from the 1977 slaughter of CIA capabilities, and the consequently increased subceptibility of U.S. policymaking to be misled into directions defined by foreign owners.

8) The loss of vital CIA counteroperations capabilities for dealing with foreign based illegal drug and terrorist operations, deployed against the United States, our nationals, and points of vital national interest including embassies and consulates.

9) The sources of the decision to destroy the United States' most vital element of anti-drug intelligence capabilities under conditions of a massive increase in the international drug traffic.

The Congress must refuse to be diverted from this crucial, principal doorway into the matters of the Congress's legislative and related oversight powers and responsibilities.

II. Damage evaluation

The first outlined phase of investigation must proceed to an estimation of the damage to national security caused by the 1977 gutting of the CIA and by related measures.

From my information respecting the Middle East, I conclude that years of accumulated in-place assets of the CIA were "shopped out," "hung out to dry," and so forth, during or immediately following the 1977 Admiral Stansfield Turner purge.

One example of this is outstanding. According to former Iranian Prime Minister Shahpour Bakhtiar, a former Attorney General visited him carrying credentials of an agent of the Carter administration. This confirms corroborating information gathered from a number of other documentary and other highly worthy sources. While carrying such credentials, Ramsey Clark was featured at a street rally in Teheran at which he demanded the overthrow of the Bakhtiar government of Iran, in favor of the Ayatollah Khomeini. He has publicly persistently supported the Khomeini dictatorship which subsequently avowed itself an enemy of the United States and which assaulted our embassy and still holds kidnapped the U.S. diplomatic and other hostages.

This is not to assert that the United States has lost all "in-place" intelligence resources in the Middle East. It is to emphasize that the CIA's capabilities were gutted to the effect that the scandalous implications of the Clark affair could be covered up, and U.S. national policy for the Middle East led down the pathway into the current mess, so menacing to the most vital interests of our nation and its friends and allies. A U.S. policy which fosters the preconditions for blowing up the vital petroleum supplies from the region of the Persian Gulf is certainly conclusive proof of a monstrous breakdown in both intelligence and policymaking functions.

During the same period, from 1977 onward, many "bridges" between Washington and Moscow were burned down. The "bridge-burning" initiated by the Carter administration thus created the opportunity for the "bridge-burners" on the Moscow side to push their policies through leading Soviet circles. Although I have no direct knowledge of the purported "Trigon" case, the reported version of the case, whether fictional or factual, is paradigmatic for the situation created by the Turner purge of the CIA.

I do not assume the Congress's privileged duty and authority to assess the damage done to the CIA in the course of the "bridge-burning" orgy of 1977. I state the overview of the matter which ought to inform the judgment of members of Congress conducting this inquiry.

Modern crisis management between principal potential adversaries requires special auxiliary instruments apart from direct diplomatic channels. These instruments include controlled conduits of interface, for transmission of "white intelligence" back and forth between the two powers. This is effectively managed under the auspices of cultural, scientific and commercial relationships, most of which are a process of spontaneous exchanges and business affairs between private entities and individuals of the United States (in particular) and Moscow (in particular). This is properly complemented by direct and indirect channels for interfacing intelligence and other elements of the policymaking infrastructure of the two entities.

Thus, under the screen of cultural, scientific and commercial relationships, the two governments agree to set up channels of direct and indirect liaison between their respective military and intelligence entities.

The rules of the game for such direct and indirect liaison are "white intelligence only." Each communicates as much of the truth as the opposite side is authorized to know. The principal crisis-management function of this arrangement is the minimization of tactical miscalculation by either side, and minimizing the risk of a cumulative pattern of tactical miscalculation leading to strategic miscalculation.

This arrangement does not involve "betraying" of national security intelligence of either party. It is a leaking of "white information" to the opposition, chiefly either to prevent a misinterpretation of our own, or their own actions, or to arrange for them to allow us a clear field in dealing with matters of our vital interests, which do not properly affect their vital interests.

This accredited "white intelligence" exchange complements covert intelligence by both sides. It is also, unavoidably, an environment in which each side may be tempted to cultivate potential assets from the other side.

One such arrangement is the creation of the U.S.-Canada Institute as that part of the interface between Soviet and Anglo-Canadian intelligence which specifically interfaces U.S. intelligence along the track of the war-time SOE configurations. The "mother" agency for the U.S.-Canada Institute is IMEMO, which is principally a direct interface between the British secret intelligence service and Soviet intelligence. IMEMO was developed into this role using "former" SIS operatives Maclean as IMEMO's key adviser, at the time H. "Kim" Philby went over to Moscow to assume his official career within the Soviet KGB.

So, until Turner's purge of 1977, the United States had two avenues of crisis-management intersection with the Soviet command. One was the U.S. link through the British SIS-controlled Anglo-Canadian intelligence tracks for which the U.S.-Canada Institute links to David Rockefeller et al. are only the most obvious illustration, among many channels of this class. The other was the system of cultural, scientific and commercial channels accessible to direct exploitation by the CIA. Turner's 1977 purge destroyed most of the latter category, making the United States relatively dependent upon the same British SIS which earlier fed us Maclean, Burgess and Philby.

I am not in a position to assess directly the personnel of the CIA generally. However, my contacts, directly and indirectly, with former CIA officials and related elements of the intelligence community is that the intelligence-gathering side of the CIA, whatever it did rightly or wrongly, was dominated by a certain quality of patriotism.

Like law-enforcement professionals, that community of CIA intelligence-gathering professionals deploys its capabilities as directed by law. The law-enforcement professional deploys against the lawbreakers. The intelligence operative deploys against the opposition as that opposition is defined for him by the kind of criteria of law and command otherwise associated with the practice of the military professional.

Like the law-enforcement professional, the patriotic intelligence officer is not merely an instrument of policy, but a citizen who judges what is or is not action consistent with his conscience, according to his perception of law or according to his perception of national interest—as may be the case. The professional may be fallible in his judgment of such matters, but behind the fallibility there is a higher conscience which will correct errors of judgment or earlier error.

We cannot do better. We can only inform the professionals in both general categories.

In that sense, I advance the judgment that, whatever particular errors of judgment or practice the CIA may have made in the past, my impression of the professionals generally is that most of them have been patriots. If they perceived a grave danger to national interest in current policy or policy omissions, they would find a proper channel to communicate urgent information to authorities able to correct the danger.

What I have seen done to the most vital interests of the United States over recent years appalls and enrages me. I am also persuaded that much of this disaster would not have developed had we proper intelligence functioning, using patriotic professionals of the sort I view as broadly representative of the CIA's intelligence-gathering cadres.

I correlate this with the evidence that, except for channels of intelligence controlled by other nations, including the cited dependence upon SIS-controlled channels, the United States' policymaking has been blinded by the correlatives of the 1977 purge of the CIA's intelligence-gathering capabilities.

Furthermore, by Zbigniew Brzezinski's orgy of "bridge-burning," the present administration has played into the hands of the "bridge-burners" of the Moscow side. We have been maneuvered into a worsening strategic situation, largely by the scrapping of the combined intelligence and crisis-management capabilities we had prior to the 1977 Turner purge.

I supplement that policy overview of the point with the following, reenforcing observation.

In my encounters with relevant officials of various nations during the recent period, I have not infrequently discovered such a person sitting in dismay. The recurring situation has been that such friends of the United States had reason to believe that within the Western intelligence community one scarcely knew at times who the opposition was. The former quotient of back-stabbing of an intelligence service, by that of an allied nation or even a brother service of one's own nation, has been surpassed to the point that more damage is being done by allies than by the nominal opposition. Sometimes, the situation among allies reaches "wet weather" conditions.

If the Congress inquires adequately into this matter, it will discover a situation beyond the belief of even most political figures. There are nominally friendly agencies of nominally friendly governments who would readily "shop out" an asset of the CIA to the KGB. The replay of the London *Economist*'s conduiting of a libel against Colonel WerBell and myself into *New Times* illustrates the kind of immorality typical of our nominal allies in that particular compartment of SIS.

I do not know whether "Trigon" is fact or fiction. If it is fact, I would know what parts of our own intelligence community I would look at for the leaking of Trigon's connections. I would not suspect a Soviet "mole." I would suspect some highly placed wellspring of intramural homicide, along the general lines exhibited in the London *Economist*'s planting of a denunciation of Colonel WerBell and myself in a Soviet intelligence publication.

III. The 'Stealth' bomber

The principle that permits the possible development of an antiradar design, e.g. the "Stealth" bomber, has been known for decades. There is no secret involved.

Yet any intelligence entity of a major power should have assumed long ago that the development of such a capability was being considered and possibly implemented by the other. Therefore, there is no secret to this second part of the analysis of the matter.

The only "secret" is the actual commitment to deploy such a capability. That is the "secret"—the only secret—which the Carter administration leaked, and that under the pressures of an ongoing election campaign. Since it is a legal impossibility to illicitly leak information to the President of the United States, no one can be charged with "mole-like" qualities of formal impropriety as a result.

There is another aspect to this business of militarily relevant scientific intelligence. It is this other aspect which ought to occupy the interest of a congressional inquiry.

What Congress might ask, in connection with the Carter administration's "blowing" of the "Stealth" business, is how the principle of the "Stealth" aircraft is defeated. By what sort of countermeasures? Some panicked advisers of President Carter may wish to copy Josef Goebbels' wartime propaganda cult of "miracle weapons." In fact, no "miracle weapons" exist, but only, at worst, terrifying ones. Nor is there an "ultimate weapon," but only weapons whose mere existence increases spending for the development and deployment of countermeasures. What are U.S. and Soviet capabilities for countermeasures against such a device? Does our intelligence community have, presently, the capability to provide a competent answer?

All this falls under the heading of evaluations of the categorical capabilities of Soviet and U.S. science. In this dimension, the Carter administration and its intelligence institutions have been lately fostering some dangerous falsehoods.

The congressional inquiry should focus on the implications of the Wirszup Report. The inquiry should proceed from that to examine both the quantitative and qualitative sides of the implied strategic problem.

Essentially, during the period 1966-67, the U.S.A. adopted opposite policies for development of science and technology.

A branch of the British secret intelligence service, the London Tavistock Institute, developed a policy recommendation, nominally on behalf of NASA. The report authored by Anatol Rapoport is exemplary of this policy recommendation. The utopian policy statement *Technetronic Society,* authored by Zbigniew Brzezinski, reflects the same Tavistock dogma. From approximately 1967 onwards, the perspective reported by Rapoport has been increasingly U.S. policy. NASA was phased down, as Tavistock demanded, and governmental and other policies phased down U.S. basic industry and whole categories of research and development, along the lines of Brzezinski's H. G. Wells variety of "technetronic" cultism.

During the same period, the Soviet Union qualitatively increased the emphasis upon science, both in educational programs and in emphasis on employment of scientists. Despite the softening effects achieved by smuggling the "systems philosophy" Trojan Horse into Moscow by way of Vienna, the Soviet Union has achieved a massive human-resources advantage over the collapsing capabilities of the U.S. population, in respect to scientific employment and advanced skills potentials of the younger sections of the labor force.

Is Zbigniew Brzezinski therefore to be suspected of being a "Soviet mole"? Or, the avowed, neo-Malthusian James R. Schlesinger? In this dimension, the greatest enemy of the United States has and continues to be ourselves. As long as we tolerate such disastrous weakening of our economy and our strategic potentials for the future, it is our own folly which is to be blamed. Let us not compound our own follies by foolishly placing Brzezinski under suspicion as a "Soviet mole."

It is the qualitative side of this matter which is most poorly grasped among policymakers today.

The hierarchy of bottlenecks in the Soviet economy, especially the poor productivity of its agricultural sector, restricts the Soviets presently to a rather limited capacity to transform advanced scientific capabilities into new products on a large scale. This, as any congressional inquiry could determine for itself, is concentrated in the advanced military-development production capabilities. Thus, careless inspection of Soviet output must tend to greatly underestimate the nature of progress in Soviet basic science.

Since Congress's inquiry will be aided by relevant members of our scientific community, I shall summarily identify here the visible aspect of Soviet advanced work which I presently identify as most crucial.

If we place the emphasis of inquiry initially on the side of theoretical physics matters, as we should, then emphasis must be focused on the relatively superior grasp certain key Soviet scientific circles have shown into the proper appreciation of Bernhard Riemann's treatment of Abelian functions. This permits, implicitly, amazing tricks, so to speak, with computers whose capacities are relatively more limited than our own. More generally, the proper grasp of Riemann's work is crucial to breakthroughs in relativistic physics.

If one were obliged to single out one area as the most important point of relative Soviet strength of scientific potential, this is the point at which to proceed.

Together with my associates who have investigated this specific matter extensively, I report that this point of advanced Soviet progress is the point on which the orientation of education of our young scientists is most deficient.

The implementation of the fusion bill most recently enacted will save the U.S. advanced physics community from what would otherwise have been a disaster. That is excellent, but not yet sufficient. Take as an example the small group of scientists associated with Dr. Edward Teller. This is one of a relative handful of leading research groups on which our nation's entire scientific capability in the new physics depends. The implementation of the fusion bill will keep that sort of capability from being starved out of existence. Has our nation presently the potential for reproducing a new generation of leading scientific workers to follow the circles associated typically with Dr. Teller? It would be most hazardous to answer that question with so confident a reply as "Possibly." The infrastructure to produce the new generations is being destroyed.

I shall be only slightly technical for another moment here.

If I were to outline the broad specifications of the kind of science track we require to match and exceed Soviet advances in the critical areas of physics research, I would report these results of my own and my associates' investigations on both sides of the Atlantic.

I would base the training of future scientists on the model of Gaspard Monge's and Lazare Carnot's specifically Leibnizian approach to the notion of a physical geometry—in place of the axiomatic, counterproductive emphasis on models of so-called Euclidian and anti-Euclidian geometries. I would use that developed point of conceptual reference to guide the student through Leibniz's seminal attack on Descartes' misconception of momentum. Through the Ecole Polytechnique, and by way of Fourier and Legendre into the work of Göttingen and Berlin, especially the transformation, beyond

Gauss's work, by Karl Weierstrass, Bernhard Riemann, Georg Cantor, and their scientific-factional allies.

With one eye on the work of the Soviet Academician Novikov and others, I would insist that it is not sufficient to know that Riemann's 1859 treatise on acoustical shock waves is the basis for designing terrifying weaponry, or for helping Erwin Schrödinger to open wider the window on falsely so-called "fundamental particles." I would wish no graduate to be considered qualified for this sort of physics unless he understood Riemann's habilitation dissertation on hypothesis. Then the graduate would have the groundings for conceptualizing the physics of Legendre's and Riemann's successive establishment of the methodological bedrock for today's new physics.

Today, these two essential text sources are out of print, and most reports of their significance bowdlerized. We confront a barrier in scientific progress which is chiefly the consequence of the efforts of Cambridge University, England, and allied factions, to extirpate from scientific practice and education what those circles declared philosophically objectionable in such opponents of Cauchy and Maxwell as Riemann. The Soviet scientists have avoided that conceptual barrier—albeit with some howls of philosophical protest from some among their "Marxist-Leninist" fellow citizens.

Our predicament in this matter is not absolute. If Congress inquires, it will be able to discover that a few circles in our nation are, happily, working in the direction I recommend. The ongoing work of my associates on this point has not been entirely neglected among some of our best scientific circles. Unfortunately, those exceptions are, for the moment, merely exceptions.

National policy must support the efforts of our best scientific workers, not merely with tax incentives and grants, but by adopting a new national consensus, reversing the hideous damage to our nation and its defense potential done by Zbigniew Brzezinski and his utopian co-thinkers back in the late 1960s. We must restore the emphasis on scientific achievement which Presidents Eisenhower and Kennedy fostered by such means as the development of NASA. We must also create the kind of scientist from new generations which we borrowed as émigrés from the orbit of Riemann's Göttingen to aid us crucially in the Manhattan Project, and in our close race with Soviet scientists to create a deployable thermonuclear weapon.

Our old science education was passable, but not truly adequate. The philosophical bias against the central methodological principles of Leibniz, Carnot, Riemann, and Cantor was dominant, even among instructors who did not suspect such a prejudice in themselves. For the new physics, merely to resurrect the old science education approaches would be worse than inadequate.

Unfortunately, I fear, judging from the incompetent official evaluations of Soviet science I have heard from the administration recently, Congress might find that our intelligence community has not yet understood what this problem is all about.

IV. The conceptual problem of intelligence

If members of Congress proceed effectively with the lines of inquiry I have outlined here, the deeper they inquire into the demimonde of intelligence, the clearer it must become to them that the world as ordinary opinion and commonplace slogans describe it is relatively a mere theatrical performance. The world of the news media reports is a surface charade, which distracts the mind from the operative reality, the reality that shapes most of the events.

Reality is directed as if from backstage. The audience sees only the actors, the props, the lines. Sometimes there is a script. Sometimes the world as daily misrepresented to the credulous by our news media has no script, but represents actors in a "living theater" scenario.

It is the essential function of intelligence to get behind stage.

The intelligence institution competently trained and deployed for its work is not plunged into some eerie other world. It is the intelligence function whose attention is focused in the real world, whereas—at least up to this point—the ordinary citizen, credulously believing that the *New York Times* and *Washington Post* report "the news," sees only an illusion, a theatrical quality of charade. This may not be the case in the small, personal things of life. It is so on all matters bearing upon major developments dominating national policy.

The intelligence operative is seen as a "spook," because the back stage, where the play is controlled, is spooky to the audience credulously focused on the illusion of the drama being enacted.

The member of Congress, although he or she may have had no exposure to the policymaking levels of intelligence work, has resources of personal political experience which aid members of Congress conducting such inquiries to grasp the essentials.

Is there a Congressman who has not been privy to a decision enacted, in which case the reason for the decision was one matter, whereas the explanations given for the decision to the public were quite a different matter? Did not the national press, perhaps, solemnly chew over in print for days thereafter the explanation given? Was this willful deception, this explanation wholly irrelevant to the substance and implications of the decision, not the focus of whatever heated debates arose?

If we take account of the extent of such practices, in most of the decisions affecting public life, must we not therefore accept the proposition that the news the media reports is chiefly charade, theater, illusion? As our citizenry attempts to interpret the real consequences of such decisions overall, it is impelled to explain the consequences in terms of the deliberately deceptive rationalization which the news media solemnly regurgitated as "fact."

It is by understanding that such is, alas, the presently prevailing state of affairs in the world that a member of Congress inquiring into the domain of intelligence policy can grasp what is most essential. The intelligence operative, if he or she is competent, is operating in the domain of backstage reality, as the eyes and ears, and occasionally also the arm, of national policymaking.

Once that is understood, the member of Congress will overcome susceptibility to the paranoid chatter about "moles" emanating from the likes of Robert Moss.

I don't like David Aaron myself. I would never let that dislike impel me to circulate the sort of dangerous, false, defamatory fairy tales against him which I have found circulating around the Congress recently. If I go after David Aaron's political scalp, it will be for what he is, not what he is not.

Ladies and gentlemen, let us resolve that we shall tolerate no longer the practice of British intelligence playing games with our national security policies in such a manner.

INTERVIEW

How fusion bill became U.S. law

Dr. Morris Levitt, Executive Director of the Fusion Energy Foundation in New York, granted the following interview to EIR *on Oct. 8, one day after President Carter signed Cong. Mike McCormack's fusion energy bill into law. The legislation, the Magnetic Fusion Engineering Act of 1980, commits the United States to building a prototype magnetic confinement fusion reactor by the year 2000.*

EIR: Dr. Levitt, your organization has been given a great deal of the credit for making passage of this bill possible. What made success possible?

Dr. Levitt: There were two closely intertwined lines of development, political and scientific, that went into the McCormack bill—political and scientific developments spurring each other on, so to speak.

Politically, the combination of Carter administration economic and energy policies was creating a strategic situation in which an open field was being given to the Soviet Union for both world industrial dominance and dominance in the field of nuclear technology, in particular. For example, the Soviets were generally known to be pursuing advanced lines of research that could lead to major weapons breakthroughs. Meanwhile, there was increasingly open discussion, which we helped provoke, about the scandalous state of the U.S. military. And through the Wirszup report [a study of Soviet education by Chicago Prof. Isaak Wirszup—ed.] which we publicized widely, it became generally known that levels of scientific education in the Soviet Union had rapidly risen in the same period that the U.S. was winding down the NASA space program; and U.S. education in the sciences, in engineering and mathematics had accordingly fallen to woefully inadequate levels.

Among capable political figures, senior research people, and scientific personnel associated with the national laboratories, a strategic focal point was needed to mobilize the forces to reverse this situation.

Fusion energy became that focus. Fusion is strategic militarily. It is strategic as far as energy is concerned. Recent research in the field had been highly successful. The program was well managed. The program involved the national laboratories and major universities. And it involves a growing role for a significant part of the American industrial sector.

Scientifically, a number of milestones were achieved by the U.S. fusion program, despite less than desirable funding levels, that justified a full-scale engineering effort at this time. These breakthroughs demonstrated a scientific mastery of the basic features of plasma behavior required to scale up to reactor levels.

These successes were all reviewed and validated by three prestigious panels in succession. The panels represented an interface between the indicated scientific and industrial layers.

First the Foster panel. Dr. John Foster, [former head of research and engineering in the Defense Department, now vice-president for energy systems at TRW], favorably reviewed both magnetic and inertial fusion programs for the Department of Energy. Then, Dr. Robert Hirsch, the former head of the DOE fusion program, put together an ad hoc panel in cooperation with Congressman McCormack's energy subcommittee of the House Science and Technology Committee. Finally, the DOE's Fusion Advisory Panel, headed by Sol Buchsbaum, the vice-president of Bell Labs, was decisive in recommending an upgrading of the magnetic fusion effort.

These reports gave us added leverage, and gave Congressman McCormack the specific leverage he needed.

EIR: What exactly is the Fusion Energy Foundation and what will it do now that the bill has become law?

Dr. Levitt: Actually, although the Fusion Energy Foundation was not founded until the fall of 1974, our people have been carrying out in-depth education on the issue of fusion energy since the late 1960s. Even at that time, associates of economist Lyndon LaRouche were saying that fusion was the energy source required if world industrial development were to be successfully pursued, and economic chaos were to be averted.

From the outset the Fusion Energy Foundation called for an "Apollo-style" crash program to develop a fusion reactor during the 1990s. With that perspective, we could develop economic programs to fully exploit existing resources in the interim.

At the beginning, the foundation was just a small staff with a contact network of scientists in the fusion community. Since then we've grown to become the largest scientific organization in the country aside from some of the professional associations. So, we were able to deliver thousands of postcards and telegrams to Congress and the President around the McCormack bill.

EIR: What happens now?

Dr. Levitt: The McCormack bill specifies that the fusion program be funded an additional 25 percent in each of the next two years. The first job now is to make sure every year that the specific program laid out in the bill gets funded at the level required to meet the timetable.

Second, America has to be reindustrialized, and the way to do it is to gear up the U.S. economy around the massive domestic use and export of nuclear power. We have to combine our advanced aerospace and electronic capabilities with technological renovation of our basic industries. Without reindustrialization in this way, we will not have the adequate industrial and engineering base for the transition to a fusion economy. We have to make that understood at all policymaking levels, and among the general population.

You can begin to see that, now that the bill is passed, our work isn't over, it has just begun. We must launch a broad-based research effort which explores every possible dimension of plasma physics theory and experimentation. We have to produce tens of thousands of scientists trained in the most advanced areas of mathematical physics, firmly grounded in the methods of Riemannian analysis which have proven uniquely applicable to the behavior of energy-dense plasmas. Otherwise, we will not produce the minds to give us breakthroughs in plasma physics and basic science as by-products of the fusion program. Without the scientific cadre, we will not be able to perfect fusion technically or economically.

What this implies is a broad educational renaissance in our schools. This must be based on reviving and expanding the highest classical tradition in literature, music, and science and putting an end to the chaos, crime, and adulterated curricula that prevail in American educational institutions at present. Otherwise, we will not have a population in 20 years capable of producing, assimilating, and operating in terms of the industrial and scientific requirements of a fusion economy.

A fusion economy requires a variety of new industries and a very significant technological development of existing industries. The Fusion Energy Foundation has developed as an organization of specialists not only in plasma physics, and in scientific education, but in the industrial planning that a fusion economy implies. Our LaRouche-Riemann economic modeling tool has already proven itself uniquely accurate in forecasting economic developments under conditions in which the key parameter is technological change. We expect to employ that model in a key planning capability relating to the transition to a fusion economy.

This gives you an idea of what the implications of the passage of the McCormack bill are for industry, for education, and for science. It presents a tremendous challenge, and a tremendous opportunity for this nation. When one considers that fusion energy, to be realized in our lifetimes, means meeting all of the world's energy needs for quite literally millions of years, in every form, electricity, heat, hydrogen, then you realize that we are inaugurating a renaissance in human affairs on a truly enormous scale. Our job is to see that it happens.

Congressional Calendar by Barbara Dreyfuss and Susan Kokinda

Under Way

● **THE MAJOR ITEM** on the congressional agenda in the lame duck session that begins Nov. 12 is the passage of the remaining ten appropriations bills. Administration sources think that there is so much controversy surrounding the foreign aid appropriation that Congress may not even review it, merely passing a continuing resolution for the 1981 fiscal year, keeping the measure similar to the 1980 bill. Included in this appropriation bill is an amendment passed by the Senate in the last days before the recess to prohibit the State, Treasury and Justice Departments from spending money to enforce the grain embargo to the Soviet Union.

● **TAX CUT LEGISLATION** is definitely on the agenda for the lame duck congressional session. The Senate Task Force headed by Texas Democrat Lloyd Bentsen, appointed to study the issue when the Republicans first came out with their tax cut proposals early this summer, will present their tax cut program for congressional review. Sen. Robert Byrd (D-W. Va.), bowing to administration sentiment, had refused to consider a tax cut plan on the Senate floor before the election. The administration, which does not want a tax cut this year, did not want to be publicly forced into opposing a tax cut before the election.

● **THE PACIFIC** Northwest Power planning bill (S. 885) is on the House agenda for the first week of the lame duck session. It would give the Bonneville Power Authority in Washington State authority to purchase power from utilities. This would then be mixed with existing Bonneville supplies and sold more cheaply than the utilities could alone. This added authority for Bonneville is a necessity to meet the region's energy needs.

● **THE HOUSE** has already scheduled action on the Agent Identity Disclosure Bill (H.R. 5615, S. 2216) while the Senate leadership has pledged to consider it in the session starting Nov. 12. The bill imposes a jail sentence and fines on those who disclose the identities of intelligence agents.

● **THE HOUSE FOREIGN** Affairs Subcommittee on Asian Affairs will hold hearings on Oct. 16 and 17 on U.S.-Japanese relations. They will focus on the effects of Japanese imports into the U.S.

● **REVENUE SHARING** funds are in question for 39 localities. The General Revenue Sharing legislation (H.R. 7112), which details the funding for regions, expired the last week in September, although areas will not feel the effect until January when the first payment is due. However, localities cannot plan for the money they will receive in the new year until Congress returns and passes the measure.

● **JACOB JAVITS** on Sept. 30 introduced Senate Resolution 532, calling on the Secretary of Energy to "immediately establish an Office of the Assistant Secretary of Emergency Energy Preparedness, responsible for planning, coordination, and implementation of the emergency energy response programs of the Department of Energy."

● **HARRISON WILLIAMS** (D-N.J.), another target of the Justice Department's Abscam entrapment scheme, will be the focus of hearings by the Senate Ethics Committee some time in early November. Williams is the powerful chairman of the Senate Labor and Human Resources Committee, and is closely tied to the trade union movement.

● **THE CRIMINAL CODE** Reform bill (H.R. 6915, S. 1722) will come up on the floor of the House right after the election, according to House speaker Tip O'Neill (D-Mass.). The Senate will probably move on the measure if the House is responsive. The Senate bill, authored by Sen. Ted Kennedy (D-Mass.), reduces penalties for marijuana possession and use almost to the point of decriminalization, and includes a section on labor racketeering that could be the basis for major attacks on labor leaders. If the bill does not pass this Congress, its supporters fear it will be lost as a new Congress will not take up the controversial and detailed matter.

● **DEMOCRATIC** leadership posts will be chosen at meetings of the House Democratic Caucus Dec. 8-12. On Dec. 8 the House Steering and Policy Committee will meet to choose prospective committee chairmen, who then have to be accepted by the full House.

● **THE HOUSE REPUBLICAN** Conference will meet to elect their party caucus chairman and consider leadership posts on Dec. 8 and 9.

On the Agenda

● **NUCLEAR POWER** plant liability was the subject of hearings held by the Energy Subcommittee of the House Interior Committee Oct. 1. The subcommittee decided to send to the full committee without amendment H.R. 8179, a bill cosponsored by Congressmen Morris Udall (D-Ariz.) and Jonathan Bingham (D-N.Y.), that raises the liability for nuclear facilities from $560 million per accident to $5 billion. It also drastically increases the charges paid by a nuclear power plant for insurance and increases from $5 million to $20 million the lump sum fee of a plant in the event of a crisis. The bill would seriously hurt an already crippled nuclear energy industry.

● **THE NOMINATION** of John Sawhill as chairman of the Synfuels Corporation was taken off the Senate floor Oct. 1 when Sen. Mark Hatfield (R-Ore.) started to filibuster it. Hatfield wanted to put off the appointment of three of the board's members until after the election, in case Ronald Reagan becomes President. If Carter is reelected, Hatfield will let the appointment go through in November.

● **THE READINESS** of U.S. military forces was the topic of House Budget Committee hearings Oct. 1 and Sept. 30. Among those testifying was Lt. Gen. P. X. Kelley, commander of the Rapid Deployment Force, who told the Committee, "The strategic airlift is not sufficient to put a capital R in rapid. It would take three to four weeks before any ship would be in southwest Asia by the time of a crisis. The problem is moving equipment and supplies."

● **THE HOUSE** voted Oct. 3 to expel Cong. Michael Myers (D-Pa.) from the chamber, the first expulsion of a congressman from the Hill since the Civil War. Myers was a victim of the Abscam entrapment scheme of the Justice Department.

● **SERVICE INDUSTRY** competitiveness was the topic of the Senate Commerce Committee hearings Sept. 25. Hearings revolved around legislation introduced by Daniel Inouye (D-Hawaii) which would establish a special division of the Commerce Department to promote service industries, including banking, transportation, communications, and computers. These are the industries slated for growth by the Carter administration while basic industries such as steel and auto are left to "sunset."

● **WINDFALL PROFITS** Tax repeal legislation was finally introduced into the House on Sept. 24 by Cong. Hickey Edwards (D-Okla.) It would repeal the tax, which is aimed at wiping out small independent oil producers.

● **THE "IRAN DOCUMENTS"** of the State Department, which reportedly detail administration relations with Iran starting with the fall of the Shah, would be made public immediately, according to a resolution (H.R. 790) of Cong. Pete Stark (D-Calif.). The House Foreign Affairs Committee under pressure from the White House decided not to take any action on the proposal until the Nov. 12 session. The release of the documents could have sparked investigation into the foreign policies of the Carter administration, perhaps bringing to light some of the details of how this administration installed the Khomeini regime in Iran.

● **ALASKA LANDS** bill (H.R. 39) amendments were offered Oct. 2 by Cong. Morris Udall (D-Ariz.). The bill, which keeps millions of acres of Alaska lands from development by mining, oil and forest industries, has been passed in different versions by the House and Senate. Opponents of the much more restrictive House version of the bill wanted to avoid a conference committee, hoping that through private negotiations they could eliminate some of the more extreme House provisions. Udall's amendments represent the start of that private negotiation, Udall being the House leader of the bill. Environmentalists who support the bill hope to see it pass during the lame duck session because they fear a new Congress will hesitate to deal with such a controversial subject.

● **INTELLIGENCE AGENCIES'** budget legislation passed the House late in the session with several important provisions. The bill (S. 2597) reduces from eight to two the number of committees the intelligence agencies have to report to on the Hill. The bill, which passed the House 385 to 18, also says that under extraordinary circumstances the President can limit prior notification on covert intelligence activities to eight ranking people in each house. It also says that the President can order action without telling Congress, but he must send them a briefing on the activities after ordering them. The House voted on a Senate bill and it is now before the President for signing.

Capitol Hill Close-Up

Committee blames Fed for business failures

The House Committee on Small Business issued a report on Federal Reserve policies Sept. 30, blaming the Fed for the large number of small business bankruptcies that occurred during fiscal year 1980. The report, *Federal Monetary Policy and its Effect on Small Business,* was the result of six hearings held by the Subcommittee on Access to Equity Capital and Business Opportunities that began on Oct. 30, 1979. The hearings studied the effects of monetary policy on small business, especially the actions announced by the Federal Reserve Oct. 6, 1979 to curb credit growth.

The report concluded that "the most dramatic result of tight money policy and subsequent recession is the corresponding increase in the number of business bankruptcies. From fiscal 1980, ending June 30, business bankruptcies reached 36,003, an increase of almost 23 percent over the prior fiscal year. With joint petitions included, the 1980 fiscal year showed a 55 percent increase over the last year and the total number of individual business bankruptcies rose an incredible 88 percent.

"The subcommittee finds that the Federal Reserve Board's shift in monetary policy, announced Oct. 6, 1979 and March 14, 1980, had the effect of greatly increasing interest rates on loans to smaller businesses. This especially impacted small firms because they depend on bank credit to a great degree, are highly leveraged, and require frequent financings. . . .

"The subcommittee finds the acceleration in the prime rate and the recession were major factors contributing to the increase in business bankruptcies, and that the rapid increases in rates are partially due to the Federal Reserve Board's policy changes initiated on Oct. 6, 1979 and March 14, 1980."

The Small Business Committee recommended that the Federal Reserve Board "conduct monetary policy in a manner which minimizes the negative effects such policies may have on small business." They also proposed that banks be encouraged to tie small business loans to rates other than the prime rate, that the Federal Reserve formally initiate a dual prime lending program, and that the Small Business Administration lower the cost of their money to smaller firms during tight money periods. It is not certain whether the committee will act legislatively when they return from their recess to ensure an adequate supply of funds to small businesses.

Credit Control Act to be phased out

After receiving a panicked phone call from Treasury Secretary Miller and White House adviser Stu Eizenstat, House Speaker Tip O'Neill (D-Mass.) hurriedly acted Oct. 2 to prevent the House from voting up final passage to a measure which would phase out the Credit Control Act of 1969. The Credit Control Act gives the White House full control over all credit allocations. The White House acted when the Senate, just before they recessed for the election, gave approval to the authorization of the Council on Wage and Price Stability (H.R. 6777), which included an amendment to phase out the controversial Credit Control Act in two years. The Senate action was mere formality as the bill had already been reviewed by a conference committee.

Nevertheless, the White House exerted all its muscle to prevent final passage of the measure before the election, because it represents a stinging rebuke for Carter administration monetary policies. The Credit Control Act of 1969 has only been invoked once in its history—in March by President Carter, who exercised his power under the Credit Control Act to invoke compulsory regulation of credit by the Federal Reserve Board.

Sen. William Armstrong (R-Colo.), the leading Senate opponent of the Credit Control Act, lambasted the White House action as "extraordinary and uncalled for."

Two months after the Federal Reserve used the measure to invoke the disastrously contractive credit controls, Armstrong attached an amendment in the Senate Banking Committee to the Council on Wage and Price Stability authorization to phase out the credit act, but lost on a party line vote. After discussions between Armstrong and Banking Committee chairman William Proxmire, they agreed on a proposal to phase out the bill over one year and laid out a plan to bring it up on the floor of the Senate as an amendment to the same bill. It passed the full Senate on June 2 by a vote of 43 to 40.

Armstrong's fight against the credit control bill was supported by a group of 30 major business groups including the American Bankers Association, the Independent Bankers Association, the American Retail Association, the National Automobile Dealers Association, the Chamber of Commerce, the National Association of Manufacturers, and the Business Roundtable. At hearings held by Armstrong in 1979 on the measure, these and other groups had warned that the act would "destroy the fabric of American society."

A leading opponent of the Credit Control Act demise effort was the powerful chairman of the House Banking Committee, Henry Reuss (D-Wisc.), who coauthored the act in 1969. Reuss was backed up by the AFL-CIO, one of the major lobbyists for returning the credit control measure, which sees it as a means of controlling prices.

Administration mole investigated by Congress

Charges are flying on Capitol Hill that there is a KGB "mole" inside the top echelons of the Carter administration, charges that trace back to former CIA counterintelligence chief James J. Angleton and a circle of former intelligence officials close to him. Former CIA arms control analyst David Sullivan, who until very recently was an aide to Sen. Gordon Humphrey (R-N.H.), has charged that someone in the administration was responsible for exposing a top U.S. intelligence agent in the Soviet Union, a clerk in the Soviet Foreign Ministry code-named Trigon. Under Sullivan's prodding, Humphrey asked CIA director Stansfield Turner to investigate the matter.

At the same time, Senators Daniel Moynihan (D-N.Y.) and Malcolm Wallop (R-Wyo.), asked the Senate Intelligence Committee to investigate who the government official was who "may have contributed to a major intelligence failure." Moynihan declared that "if an agent was betrayed, it is despicable and very possibly criminal." The Intelligence Committee has begun closed hearings on the matter. Although no one is admitting whom they have in mind, the word is all over Washington that the administration suspect is David Aaron, deputy to Zbigniew Brzezinski in the National Security Council and former aide to then Sen. Walter Mondale during the early-1970s Senate investigation of the CIA and FBI.

Aaron has also been fingered by former Admiral Elmo Zumwalt as having leaked information to the press on the fact that the United States is developing the Stealth technology that allows airplanes to fly unobserved by radar. Aaron was called before the House Armed Services Subcommittee on Investigations last week to testify on this, but President Carter invoked executive privilege, refusing to allow him to appear.

James Angleton, who is heavily linked to British intelligence, has been cultivating the myth of a KGB mole in upper echelons for many years.

Unemployment extension awaits Congress' return

In the early morning hours of Oct. 1, just before the Senate recessed for the election, they added amendments designed to cut up to 25 states out of unemployment benefits to the Federal Supplement for Unemployment Compensation (H.R. 8146). The Supplemental bill, passed in the House the day before by a vote of 336 to 71, was a simple extension of unemployment benefits by 10 weeks. However, a bipartisan group of senators tacked on a series of amendments for the sake of "cost cutting."

The senators, who included Republicans Robert Dole (Kans.), John Heinz (Pa.) and John Chaffee (R.I.) and the powerful chairman of the Senate Finance Committee Russell Long (D-La.), added amendments which would;

- require any person who applies for benefits to accept "suitable employment" at their unemployment compensation level, a proposal that would force the wholesale reorganization of the labor force at lower wages.
- replace the national trigger for starting the unemployment benefits with a state trigger. This means that instead of all workers receiving unemployment insurance benefits after the 26 weeks of state insurance, if a national unemployment figure is reached, each state would get the additional benefits

Capitol Hill Close-Up

based on its own state unemployment figure. Between 25 and 30 states would now be cut out of these additional unemployment benefits if state triggers are used.

House staffers, trekking bleary-eyed into their offices early on the morning of Oct. 1, were stunned that the Senate would suddenly add these far-reaching amendments to a simple unemployment extension act. The House voted to send the entire measure to a conference committee. Action will take place on the bill during the lame duck session.

Gold standard fight brewing?

Conservative Senate Republicans appear to be making a move to bolster their leverage in a new Reagan administration with the introduction on Oct. 2, 1980 of the Gold Standard Act of 1980. Introduced by Senators Jesse Helms (R.-N.C.), James McClure (R.-Idaho) and Barry Goldwater (R-Ariz.), the legislation would reestablish a classical 19th century British-style gold standard with an approximate ratio of currency to gold reserves of 40 to 1. In his introductory statement, Helms stated that his legislation was based on a February 1980 economic study by Arthur Laffer.

Nonetheless, in all their years of voluble support for a return to a gold standard, such goldbugs as Helms and Goldwater have never introduced legislation. Capitol Hill observers speculated that Helms and the traditional conservatives in the Senate will use the gold standard legislation to build up support in Reagan's conservative economic base for their views, and hence leverage in a Reagan administration. Helms has announced that, after soliciting opinions and comments, he will reintroduce the legislation on the first day of the 97th Congress.

But the debate over the legislation has already started. On the same day Helms introduced the bill, Rep. James Santini (D.-Nev.), chairman of the Subcommittee on Mines and Mining of the House Interior Committee held hearings on "The Feasibility of a Return to the Gold Standard," where Laffer himself squared off against Robert Solomon of the Brookings Institution, and Edward Bernstein, a former director of research of the International Monetary Fund. Cong. Ron Paul (R-Tex.), the leading gold bug in the House, and Thomas W. Wolfe, a former Treasury Department official backed Laffer up.

Missing entirely from the hearing was any discussion of returning to the form of "gold exchange" system that the United States and the rest of the world adhered to prior to 1971, where countries held enough gold reserves to cover their trade deficits. Such a system, while tying the dollar to gold, does not place a rigid lid on the expansion of credit as a strict dollar-gold ratio does. Laffer was unable to explain how his proposal would not cause a complete deflationary collapse of the world economy.

Justice pressuring Senate witness?

Senators Dennis DeConcini (D-Ariz.) and Orrin Hatch (R-Utah) continued their investigation of possible administration coverup in a reported influence-buying attempt by Robert Vesco, Hamilton Jordan and other close White House advisers. On Oct. 2, DeConcini's Judicial Improvements Subcommittee heard Spencer Lee, an old Hamilton Jordan drinking buddy, deny repeatedly that he had been the go-between for Vesco and Jordan. Lee has repeatedly flunked lie detector tests when asked similar questions by grand jury investigators. At one point the hearing erupted into a shouting match between Lee and Senator Hatch, with Hatch branding Lee an "out-and-out liar."

While the subcommittee intends to receive testimony from Robert Vesco, probably in the Bahamas, since the Justice Department refused to grant Vesco immunity to come back into the United States to testify, committee sources report that Vesco's contradiction of Lee's denials will not be enough. The other key witness, R. L. Herring, who was the other go-between along with Spencer Lee, has just been indicted on a murder charge.

Sources report that the basis for the indictment is very flimsy and may be an attempt by the administration to discredit or blackmail Herring. Herring was indicted in a three-year-old murder case six days after the DeConcini subcommittee announced its intention to call him as a witness. The indictment was based on the testimony of an unnamed witness who is currently under the Federal Witness Protection Plan.

Further, the man accused of the actual murder, allegedly under contract from Herring, claims that he has never heard of Herring. Sources note that it is the Justice Department, itself a focus of the Subcommittee investigation, which developed the information leading to the indictment.

House conservative Dems hurt by Bauman scandal

Washington's latest sex scandal, involving charges that Cong. Bob Bauman (R-Md.) had illicit sexual relations with a 16-year-old boy, has a group of conservative Democrats worried about the scandal's implications for Bauman's continued effectiveness on the Hill.

Bauman, a Republican, has served as the conservatives' premier parliamentary infighter in the House for both parties for some time, and has been indispensable in conservative efforts to block the legislative maneuverings of House Speaker Tip O'Neill (O-Mass.), a close ally of the Carter administration.

Bauman has provided indispensable assistance to conservatives seeking to block certain legislation or to challenge procedural motions of the House leadership. Close to 60 Democrats have consistently blocked wih Bauman and the Republicans on procedural votes.

Even if Bauman wins reelection this November, his effectiveness will be seriously impaired. "It took him 20 years since his days as a Capitol Hill page to develop this knowledge," declared one Capitol Hill staffer. "There is no one to take his place. He has set the conservative cause back irreparably."

In August, Tip O'Neill sent a sharp note to 44 House Democrats who deserted him on an important procedural issue regarding the IRS withdrawal of tax-exempt status from private schools found to have discriminated against minorities. O'Neill warned Congressmen not to go against the administration. Despite this warning, the conservative grouping continued to support Bauman in procedural skirmishes against the Speaker.

New wheat reserve formed

On Oct. 1, 1980, the Senate passed the House version of legislation establishing a new 4 million metric ton wheat reserve, and sent it to the President for signing. The legislation also included provisions for new price support loan levels, and was broadly viewed as part of the Carter administration's attempt to ameliorate, in a piecemeal way, many of the disruptions caused by the Soviet grain embargo.

Despite attempts by drafters of the legislation to ensure that establishment of a new 4 million ton reserve could not be used by the government to dump grain on the domestic market and use it to drive down prices, Sen. Henry Bellmon (R-Okla.) expressed concern during floor discussion of final passage that such might be the case. Under the legislation, the reserve is to be used for international famine relief efforts as a backup to PL-480, and hence should have no impact on domestic markets. Citing the provision in the legislation which allows the reserve to sell off wheat on the verge of spoilage and "promptly" replace it, Bellmon asked, "Is there any provision in this act that says that even if this grain is thought to be going out of condition, it cannot be dumped on the domestic market? That is the device that was used repeatedly in the 1950s and the 1960s."

Sen. Walter Huddleston (D-Ky.) responded that the new reserve had been set up in such a way as to ensure strict congressional oversight and that if the Secretary of Agriculture attempted such market manipulation, "it would be a deliberate circumvention of what is called for in the statute."

The wheat reserve was included as Title III of an amendment to the Olives and Walnuts Marketing Act (H.R. 3765) along with Title II establishing the new price support loan levels for wheat, corn and soybeans. Titles II and III had been enmired in a conference dispute over Farm Labor Contract provisions, and were separated from that and attached to H.R. 3765 in a successful effort to speed passage.

National News

Administration coverup of Wirszup Report?

Through the office of White House science adviser Frank Press, the Carter administration will soon release a report on U.S. scientific and engineering education. Based on an investigation coordinated by the federal National Science Foundation and the Department of Education, the report was personally ordered by Carter this spring following publicity for a study by University of Chicago professor Izaak Wirszup that concluded the U.S. is badly trailing the U.S.S.R. in scientific and technical education.

"Our report sees no need to broaden the scope or quality of U.S. science education," one of the top participants in the study told *EIR* recently, though, he said, "the basic facts of the Wirszup report are correct.

"The only problem areas that need beefing up are in computer technology, where we have a bad shortfall in experienced people now, and in some aspects of engineering," he asserted. Coverage of the Carter response and what its drafters say about it will be featured in an upcoming issue of *EIR*.

50 percent tax cut plan on Michigan ballot

Proposition D, or the Tisch Plan, was placed on the Nov. 4 ballot by the Michigan Supreme Court last month. The ruling reversed a previous court order upholding a challenge by former Democratic gubernatorial candidate Zolton Ferency and a coalition of 50 organizations called Citizens to Save Our State.

Ferency and the CSOS are now urging Michigan Secretary of State Richard Austin to fulfill his duty and warn voters on election day that the proposition "would eviscerate the state." By law, the Secretary of State must post notices explaining the financial effects of ballot propositions.

The Tisch Plan mandates a 50 to 60 percent property tax cut that will, as the proposition states, "mean the possible reduction of existing state services." United Auto Workers representatives estimate the proposal will cut the state's discretionary budget by roughly 54 percent.

The Tisch plan will also require a three-fifths popular vote to pass any new state tax levies required to make up lost local revenues. The proposal comes on top of an already massive level of budget austerity.

Michigan will lose $2.6 billion in federal budget cuts in 1980-81, plus tens of millions due to the collapse of the state's auto industry. A $180 million state deficit is predicted. Governor William Milliken has announced $800 million in budget cuts centered on public services.

Presidential statement cites fusion potential

The White House released the following brief statement Oct. 7, on what is informally known as the McCormack bill:

"President Carter today signed H.R. 6308, the Magnetic Fusion Engineering Act of 1980, a bill authorizing a magnetic fusion research, development, and demonstration program within the Department of Energy. The bill establishes as a national goal the successful operation of a magnetic fusion demonstration plant in the United States by the year 2000. The scientific results of magnetic fusion experiments have been highly encouraging so far, and there is considerable confidence that controlled fusion reactions can be achieved.

"Congressman [Mike] McCormack and Senators Church, Tsongas, Baker, and Domenici are to be commended for their foresight in obtaining enactment of H.R. 6308.

"Fusion power offers the potential for a limitless energy source with manageable environmental effects. And H.R. 6308 represents a bipartisan effort to develop fusion as a viable energy option for the United States. Our nation is the undisputed leader in developing this advanced technology, and H.R. 6308 will help us keep it that way. This bill represents a reasonable approach to the broad advancement of fusion research and technology. I sign it into law with pleasure."

State Department heats Persian Gulf danger

Deputy Secretary of State Warren Christopher announced in an Oct. 7 speech to the annual United Press International conference in Boston that "we have vital interests at stake in the Persian Gulf region, and as the President has made clear, we will defend them. . . . The states of the Gulf and the Arabian peninsula have grounds for deep concern. They deserve our help, when they ask for it, in deterring the possibility of unprovoked attack." Christopher added: "We expect the Soviet Union to exercise self-discipline."

Christopher was preceded at the conference by Chinese ambassador to Washington Chai Zemin, who told the audience of editors and publishers the Soviets want to move south from Afghanistan to the Gulf, and from Vietnam to the Strait of Malacca to block oil supplies to other countries. "Once the Soviet Union wants to controls the Persian Gulf and the Middle East . . . it can achieve victory in Western Europe, with or without battle."

McCormack calls for breeder reactor

Congressman Michael McCormack (D-Wash.), a leading spokesman for nuclear energy development, introduced into the *Congressional Record* on Oct. 1 a report issued by the General Accounting Office declaring the necessity for the breeder reactor if nuclear energy is to be an energy source for the U.S. In introducing the report, titled *U.S. Breeder Reactor Program Needs Direction*, McCormack declared:

"The Congress has consistently supported the need for the development of breeder power-plant technology, as have a number of recent important studies, such as the National Academy of Sciences study called *Energy in Transition: 1985-2010* and the Department of Energy's study, "Nonproliferation Alternative Systems Assessment Program." However, as you know, the administration's resistance to the breeder program has resulted in a stalemate which is costly to the United States, both in dollars and in time lost in the development of this technology. . . .

"The committee has consistently taken the position that the administration's policies with respect to nuclear fuel reprocessing and to the breeder programs are unrealistic, and cause potentially serious consequences for our nation. This view is shared by many individuals and groups in this country and among our friends overseas.

"Resistance to the development of breeder powerplants is based on extremely optimistic projections of the availability of all other energy sources, and on an unrealistically low projected growth rate for energy demand. Current events in the Middle East make it painfully clear that such optimistic projections should not be relied upon for the security of our nation; and that we must proceed with the development of realistic domestic energy sources which will be needed to meet our future energy demands."

Carter negotiator ready for Reagan

Elliott Richardson has resigned as the Carter administration's ambassador-at-large and special representative to the United Nations Law of the Sea Conference. In a letter to the President, Richardson said he is stepping down because an acceptable international agreement on development of the oceans' mineral resources has almost been reached.

Some sources say that Richardson—a prominent Republican who hails from a Boston Brahmin family—is positioning himself for a Cabinet or ambassadorial post should Ronald Reagan defeat Carter's re-election bid. According to Richardson's office, the ex-ambassador has "a very tight speaking schedule" over the next month. The aid said, "Draw your own conclusions" when asked if Richardson was covertly campaigning. Richardson is already considered a vital link between the Reagan camp and Capitol Hill.

This isn't the first time Richardson has resigned: he stepped down as attorney general in the Nixon administration rather than obey President Nixon's order to fire Watergate Special Prosecutor Archibald Cox.

Carter tries to exploit Nigerian tour of U.S.

A six-day visit to the United States by the Nigerian President, Shehu Shagari, was played to the hilt by Carter campaign strategists, who billed Shagari as the "key to Black Africa" in a public relations effort aimed at black American leaders unfriendly to the Carter camp. State Department and other administration figures like Andrew Young were featured at Shagari's appearances in Harlem and elsewhere.

Sources close to President Shagari report that the Nigerians themselves prefer to see Carter re-elected, fearing a policy bias toward South Africa should Reagan take the presidency.

Diplomatic sources also report that "the British want to build up Nigeria as a surrogate African continental power not only because Nigeria has a lot of oil, but because a strong Nigeria, vocal in the Organization of African Unity, could become an interventionary power in southern Africa, and help to preserve British control over the critical raw materials in that area of the world. America's role in this context is to throw its might behind the buildup of Nigeria."

Briefly

● **LABOR** Department officials say widespread unemployment in the Midwest and Northeast threatens to bankrupt the Federal Unemployment Trust Fund, from which state funds borrow to stay solvent. The administration held up a supplemental allocation until after the elections because Carter doesn't want to make unemployment any more of an issue, a DOL source says.

● **ED CLARK,** Libertarian Party candidate for President, has called for legalization of marijuana and abolition of the Federal Drug Enforcement Administration. Clark, who considers himself an advocate of "pure free enterprise" as defined by Milton Friedman, favors legalization of prostitution on the same grounds.

● **THE FEDERAL** Election Commission informed the National Democratic Policy Committee this week that as of Aug. 30, 1980, the new committee qualified as a multi-candidate political action committee. The NDPC can therefore accept contributions of up to $5,000, rather than the $1,000 ceiling applicable to other political committees.

● **FIFTY U.S.** Congressmen and government officials are slated to attend a Nov. 11 commemorative dinner for Vladimir Jabotinsky, founder of the terrorist Irgun and previously condemned by many Zionists as a "fascist." Every U.S. Zionist group will also be represented.

● **PRESIDENTIAL** nominees to appointive posts were left in limbo when Congress adjourned. Most of the 100 hopefuls were held up by the Republicans, who look toward a Reagan victory in November. "Some of these positions should be available to the next President," stated the GOP's assistant Minority Leader in the Senate, Ted Stevens of Alaska.

'The tax must be repealed'

A respected geophysicist outlines the hydrocarbon potential that means America need not go energy-hungry.

I recently had the opportunity to share the podium at a Dallas EIR *conference with one of the nation's most respected exploration geophysicists, D. K. Davis, currently senior vice-president of the 4,000-member Texas Independent Producers and Royalty Owners Association. He has worked in every onshore and offshore oil- and gas-producing province in the United States and Canada in the past 32 years as well as Australia, Europe, and Africa. I obtained his permission to excerpt his remarks:*

Tons of dismal statistics are flowing from Democratically controlled bureaucracies, designed to prove Big Brother's theory that a horrible fate lies ahead of this nation, unless the brilliantly conceived governmental plans for exotic fuels are put into action, making fuel out of everything from coal to bull manure, and ocean currents to hominy grits.

In July, the President signed a bill to channel $20 billion from the oil industry into a government-supported synthetic fuel industry over the next 10 to 12 years. Very few, if any, of these projects will give us much help for many, many years.

It is a cruel deception of the American people. . . .

Isn't there *some* way we can have more energy and ensure our domestic security?

Let me count the ways:

1) We can begin to recover more of the oil already discovered. Two-thirds of all the oil ever found in this country is still in the ground, and even if only one-half of it can be recovered, it represents as much oil as this country has already used in its entire history. What does it take to get it out? *Money*: the money being taken away by the Windfall Profits Tax.

2) We can begin to drill in areas that have been too expensive or risky in the past. Only 2 percent of the 3 million square miles of potential oil and gas areas in the United States are producing, and we should not let the 98 percent lie dormant.

3) We can drill deeper holes. Basin after basin, offshore and onshore, has 15,000 to 30,000 feet of prospective sediments. Geologists worldwide agree that this may be where most of our future oil and gas in this country will come from. Past policies of price controls have kept the average depth of oilwells in this country to less than 5,000 feet. And less than 1½ percent of the wells drilled last year went to 15,000 feet or deeper. Money is the answer again. It costs 63 times as much money to drill a 16,000-foot hole as it does a 2,800-foot hole.

4) Geopressurized methane gas contained in the hot salt water, onshore and offshore in Texas and Louisiana, may contain up to 105,000 trillion cubic feet of gas. If we use no other energy source, and use energy at three times our present consumption, that one source could provide all our energy needs for 500 years. Even if only 10 percent of it is recovered, we can provide twice our present natural gas consumption for 200 years.

5) Last September, Dr. William Menard, Director of the U.S. Geologic Survey, described a newly defined reef in 6,000 feet of water along the Continental Slope from Florida to Maine. It's 15 miles wide, 20,000 feet thick, and could contain from 2 to 15 billion barrels of oil.

6) We can drill more areas similar to the Overthrust Belt in Idaho, Wyoming, and Montana, which is now estimated to contain 37 billion barrels of new oil. All our other proven reserves amount to only 34 billion barrels! The U.S. Geological Survey now believes that a band from northern Georgia to New York conceals an Eastern Overthrust Belt covering 75,000 square miles of sedimentary rocks with great oil and gas potential. . . .

The best way to cure the shortage in the shortest time is to be certain that oil and gas is the most profitable investment anywhere. I can assure you that is not so under the terms of the Windfall Profits Tax Act, which has nothing to do with profits, but is an excise tax right off the top. . . . Without that tax, Texas producers could *triple* the annual number of wells for the next 10 years.

If everything goes according to plan, on Oct. 13 a landmark suit will be filed in the 10th District Federal Court in Casper, Wyoming to challenge the constitutionality of the Windfall Profits Tax Act of 1980. . . . The Windfall Profits Tax must be repealed!