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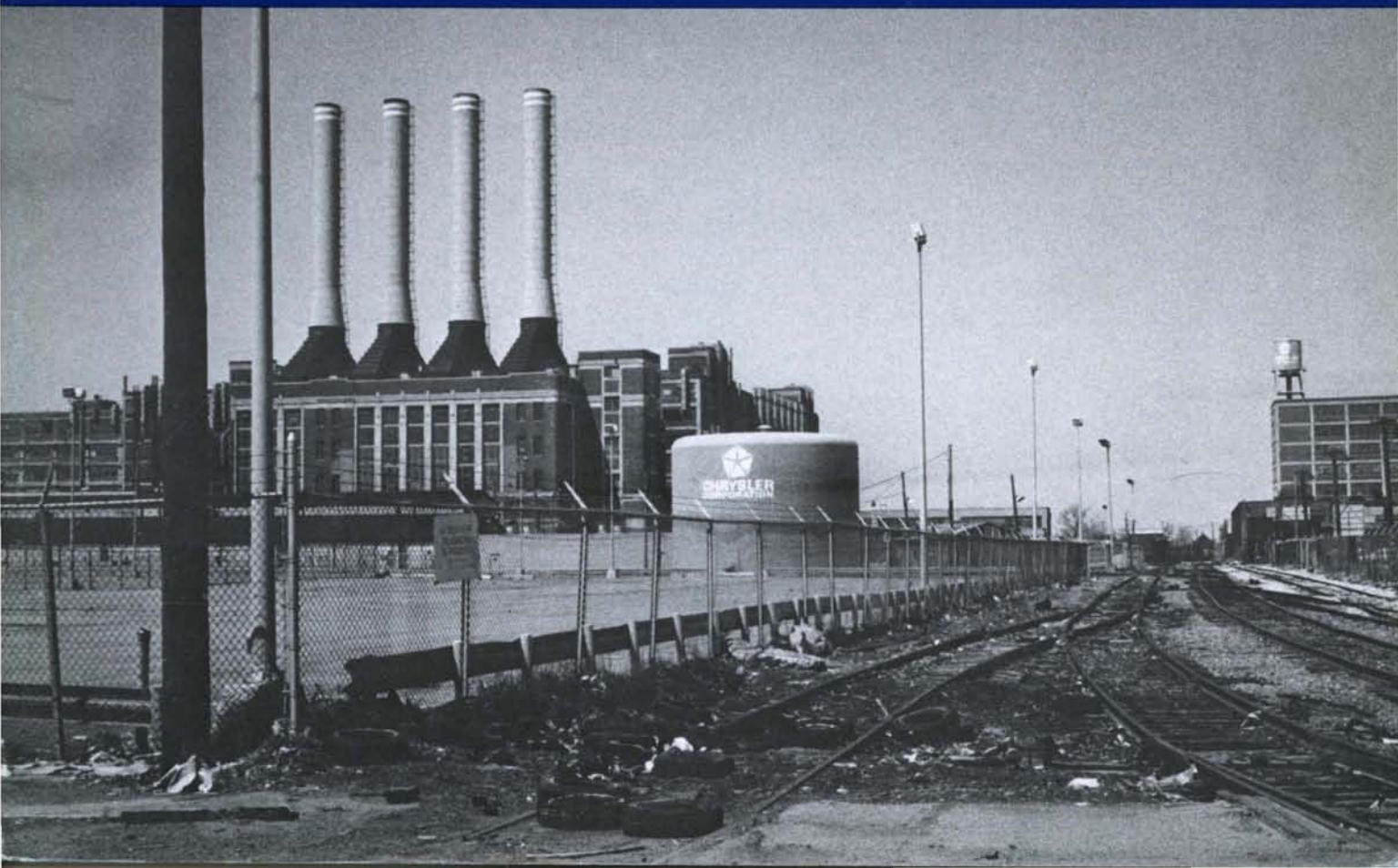
Executive Intelligence Review

December 10, 1980

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Why auto's cash flow is in the red
Soviet 'moles' use the Heritage Foundation
Senator Garn talks to EIR about banking

**LaRouche-Riemann model projects
destruction of U.S. living standards**



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EIR

From the Editor

Our Special Report this week extends the LaRouche-Riemann model's computer-based projections for the U.S. economy, presented in our Nov. 11 issue. Both that report and this one built in the assumption that the Federal Reserve's high-interest-rate regimen would continue. The results for the productive economy taken as an aggregate were a serious 1981 downslide.

Here Economics Editor David Goldman presents the same projection, disaggregated into a 30-sector model of U.S. industry. The modelers—Mr. Goldman, Alice Roth, and their staff of *EIR* and Fusion Energy Foundation specialists—have enabled the business or government decision-maker to evaluate 1) how each sector would be affected if the policies of Fed Chairman Volcker continue, and 2) the magnitude of reduced consumption that is already well under way in the United States. Instead of bolstering capital formation, the diversion of capital flow away from consumer-oriented tangible output is penalizing industrial growth to a foreboding extent.

The introduction to the econometric results, written by Mr. Goldman, draws out the implications for productivity of reduced consumption—distinguishing between apparent and actual productivity in terms of growth potential.

He also comments on the industrial sectors that under the projections survive the Volcker squeeze best, notably aerospace, and oil and gas output. The conclusion is that the so-called sunrise industries in no way compensate for the deterioration of the "sunset" basic industries, and the formula is merely a euphemism for a net contraction of U.S. living standards and industrial power.

The "slumlord" mentality behind such policies is explored in our National section by Contributing Editor Lyndon H. LaRouche, Jr., in the course of his commentary on past and present collaboration between elements of British and Soviet intelligence, and on the "Dupin" school of scientific counterintelligence.



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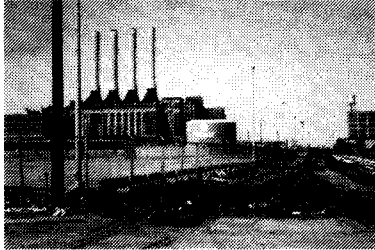
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Chrysler's shut-down Dodge Main plant.
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Correction: In our Dec. 2, 1980 issue, U.S. Rep. Bill Archer of Houston, Texas was misidentified as a Democrat, due to an editorial error. He is a Republican. The byline on another article, "The GOP's supply-side economists: their strengths and weaknesses," should have been David Goldman.

Currency bloc proposal: Britain's monetary trap

by David Goldman

Despite the apparent warmth of his meeting last week with President-elect Ronald Reagan, West German Chancellor Helmut Schmidt is on course for an economic policy confrontation with the United States around the time of Reagan's inauguration. This is the direct opposite of Schmidt's intentions. But he has blundered into a deal with the likes of former British Prime Minister Edward Heath and European Community Commission Chairman Roy Jenkins which will have precisely that result.

In practical terms, the implications of Schmidt's blunder mean for the United States the formal bankruptcy of the American dollar, either through currency controls or through a distress sale of American assets. Schmidt's blunder has equally grave consequences for the Federal Republic of Germany.

Redirecting the EMS

Schmidt is placing too much trust in British leaders like former Prime Minister Edward Heath, who have made eloquent recent peace offerings to the West Germans, proposing that Britain join the European Monetary System (EMS). In fact, Heath and others count on the European Monetary System to become a currency bloc opposed to the United States, following a predicted collapse of the U.S. dollar shortly after Reagan's inauguration.

Heath made the overture to the chancellor at a New York conference last week sponsored by the *International Herald Tribune*, apparently breaking two years of British hostility toward the Franco-German-inspired currency group. But the actual content of Heath's offer emerged in a speech at the same conference delivered by

Heath's friend David Montagu, the chairman of Merrill Lynch London and scion of the Montagu merchant banking family. Montagu pronounced the dollar a "suspect currency," predicting a drastic dollar crisis when U.S. interest rates fell (see Foreign Exchange).

No great wisdom is needed to determine that if Fed Chairman Paul Volcker continues to wreck the dollar's standing as a long-term investment currency, while promoting its value as a vehicle for hot money seeking high interest rates, the dollar will tumble as soon as the interest-rate prop is removed. Volcker has engineered a blow-by-blow repeat of the monetary events of October 1979 through March 1980, when interest rates rose to a peak of about 20 percent. The interest rate peak coincided with a sudden collapse of real economic output in the United States during the second quarter of 1980, after which interest rates fell spectacularly, bringing the dollar down with them.

The main difference is that both the economy and the dollar financial structure are both much weaker at home and internationally due to the effects of the first round of record interest rate levels. The deposit base of the American banking system, including the thrift institutions, has been "indexed" to interest-rate changes and is much more susceptible to rapid outflows of deposits. There will be a terrible thinning of the ranks of American depository institutions if this scenario proceeds.

Chancellor Helmut Schmidt—who is a good financial manager if not a good economist—knows this. But he is also under great economic pressure at home, largely as a result of the international tight-money regime imposed by the Federal Reserve. As *EIR* report-



Chancellor Helmut Schmidt addressing a Social Democratic Party conference before his reelection.

ed Nov. 18, West Germany prevented a collapse of its own currency due to hot-money flows toward high-interest dollar paper by persuading the Saudis to sell dollars and buy West German marks. This maneuver was indispensable. But under conditions of extreme dollar weakness, the flow of petrodollars into European currencies would create its own set of problems.

The program

What should have made Schmidt suspicious is that the worst enemies of what he has tried for years to accomplish through the EMS have suddenly become its most ardent defenders. At a talk before the *International Herald Tribune* conference in New York—the same affair that heard David Montagu augur the collapse of the dollar—Edward Heath proposed to build up the European Currency Unit as a haven for petrodollar flows. He added that Britain should join the EMS, from which sterling has held aloof, as soon as possible; that Europe should find a means to deal with the Arabs by supporting a Palestinian state; and finally, that new vehicles for petrodollar investments should be created through hard-currency-indexed bonds.

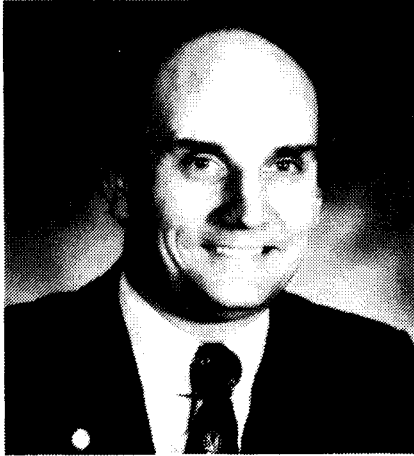
That summarizes what Schmidt has in mind, according to very well-placed West German political sources.

That is why some leading British spokesman, who bitterly opposed the European Monetary System at its founding and viewed the projected European Monetary Fund as a threat to the existence of the City of London markets are now calling for European monetary unity. EC Commission Chairman Roy Jenkins called last week for rapid progress toward the EMF, a view Heath

echoed in his remarks in New York. In Brussels last week, Jenkins hosted Britain's Queen Elizabeth II and Prince Philip before a Community meeting, where the Queen praised the role of the European Community in what the British press called unusually strong terms.

But the bottom line of this change in British public attitudes is something entirely different. In background discussions during the weeks prior to the American presidential elections, *EIR* editors talked with some well-known names in the Hamburg "mafia," the banking and political circuit which first fielded Helmut Schmidt for public office. What we heard could be summarized: the United States has collapsed economically and strategically and cannot easily be revived; however, the European financial elite will manage somehow to get by through clever, defensive use of the European Monetary System. That is the British attitude, and it is the policy Helmut Schmidt has stumbled into.

The European Monetary System, ironically, should be the dollar's most important support. It is the most efficient vehicle on the world monetary scene for the successful reorganization of the \$1.2 trillion Eurodollar market, the speculative sinkhole that has weakened the dollar to the point that a really dangerous crisis is possible. Helmut Schmidt knows this in a way that Governor Reagan does not, and his responsibility to the Federal Republic of Germany and to his American ally is to make this clear. Instead, he has adopted a path of short-term expediency that will run him into problems that he is not at all equipped to handle, and push the United States toward the worst of the economic options it can choose from.



INTERVIEW

Senator Garn: Congress must regain control

The following is an exclusive EIR interview by Kathy Burdman with Senator Edwin "Jake" Garn, Republican of Utah, the incoming head of the Senate Banking Committee. Senator Garn expresses opposition to the Fed's approval last week of offshore International Banking Facilities for the United States.

EIR: You said on Capitol Hill November twenty-first that the Depository Institutions Deregulation Committee [DIDC] and some of the regulatory agencies have been usurping congressional powers with regard to the banking system. What are your plans for dealing with this?

Sen. Garn: First of all, I would blame the Congress in general, because in the six years I have been on the banking committee, in too many instances we have simply given the Fed a blank check on a controversial issue that we don't want to face, and then when they fill it out in a manner that we don't approve of, we go around giving speeches condemning the bureaucracy for not following the intent of Congress. My first answer is to be more specific in the way we write legislation, so there is less flexibility on rules and regulations.

Secondly, I feel very strongly that we need a lot more oversight. In the six years I have been on the banking committee, we have taken the approach that the answer to every problem is more laws. I don't feel that way at all. We have, in general, plenty of law on the books; we have neglected to go back and look at what we have from previous years, and have not done the proper amount of oversight on which bills are worth something, which are not, and how we can improve them. I intend to pursue a course of a great deal more oversight and congressional responsibility. . . .

Now, in the area of DIDC, the thing that bothers me there is an example of a little bit the reverse of what I have been talking about. I think the intent of Congress is very clear. That is, we have worked out overall financial

institutions legislation during the six years I have been in the Senate. And when we had the struggle for a period of three months this year on H.R. 4986, [the Depository Institutions Deregulation Act] finally it took the banking committee a long, long session into the night to come up with a compromise that could solve the problem of the NOW account, Fed membership, and so on.

It was very clear that the compromise on interest-rate ceilings, differentials on Reg Q, was one between those who would have liked immediate phaseout and those who wanted ten years. The six-year gradual phaseout was a compromise, and that was discussed at great length, and no one who was in that particular conference committee could have doubted what the intended compromise was. And so the thing that bothers me about DIDC—interestingly, I favored a faster phaseout, and still do, than the six years that was agreed to—but nevertheless, that was the consensus agreement of the Congress and of the banking committee that agreed on this, and DIDC just totally ignored it, and set an extremely more rapid pace than was intended. There is my irritation with DIDC. That was the intent of Congress, that is the legislative process; DIDC should be carrying it out, and not going off on their own.

EIR: When you say "looking over legislation," what would you like to do with the deregulation act?

Sen. Garn: Senator Morgan and I had introduced a bill in this session that would have provided for a phased deregulation over that six-year period, and obviously that is not going to pass. Senator Morgan has been defeated, and we're going to have such a change in the banking committee that it's hard to predict what will happen. I certainly do intend to hold hearings and consider the actions of DIDC as compared with the legislation, but as far as whether there will be any statutory changes mandating them to do certain things, it's difficult to say. It appears that we will probably have a

seventeen-member committee, increased by two in order to accommodate some of the ratios on the other committees of Democrats and Republicans according to majority status. Along with the four of us carrying over, Senators Tower, myself, Senator Armstrong, and Senator Heinz, there will be five new Republican members of the banking committee, and there will be at least three, possibly four, new Democratic members. You're going to have a tremendously different committee.

EIR: What about this question of the regulatory agencies as opposed to the Congress?

Sen. Garn: Well, this is a statement I made very strongly on Friday in the banking committee. Reuss and Proxmire put a moratorium on bank holding companies buying S and L's, and my reasoning was, and still is, that although I hate to have Congress do things like that, this so-called homogenization of financial institutions has been occurring, and in my opinion, it ought to be determined by Congress, that major national policy decisions should be made by Congress, and should not be sort of drifted into by the regulatory agencies. Then Congress ends up having to ratify what is already taking place. And that's essentially what happened in the case of the NOW accounts. The regulatory agencies decided that they would allow them, although courts said no, they did not have the authority, that was congressional authority. So we ended up passing H.R. 4986 without a number of options we should have had; things were already in place by the regulatory agencies. My point on the bank holding companies buying S and L's is that it is tied up into a number of issues: the matter of interstate branches, the matter of foreign purchases, or domestic purchases of banks by foreign banks, and there are many things happening that I as chairman don't want to just *happen*, to have us react defensively, to have the regulatory agencies sitting there making decisions involving our whole financial community. We really ought to put a hold at this stage, try to approach things intelligently, and let the Congress make the laws, not the regulatory agencies.

EIR: What about this major decision on the International Banking Facilities? Many bankers think that could lead to nationwide banking by fiat, by the Federal Reserve.

Sen. Garn: Yes, that's exactly the type of thing that I'm talking about. I hope to get the banking committee willing to make these decisions, take the political heat, whatever it is, rather than finding a scapegoat, passing laws that are very general, and allowing the regulatory agencies a blank check—or, the other thing, as we have just been talking about, is by *not* making decisions, just drifting into them. I hope we will get a fast report out.

EIR: What about the specific decision on the International Banking Facilities? Many view that as a preemptive strike by the Fed.

Sen. Garn: I do.

EIR: But you don't know at this point what could be done?

Sen. Garn: No, no, it will be the twentieth of January before I become the chairman.

EIR: That's after the comment period, isn't it?

Sen. Garn: Yes, it is, it certainly is, so we're in a difficult position.

EIR: Many people think this will lead to Electronic Funds Transfer, and as Comptroller Heimann has said many times, to nationwide banking by fiat.

Sen. Garn: Well, I agree with that. My personal attitude is, just as one Senator, that I don't want the Fed to take this massive strike, any more than I wanted to allow them to make the decision whether we have bank holding companies buy up a lot of S and L's.

EIR: What about the nationwide banking aspects?

Sen. Garn: Well, my own attitude, my own bias, as I said the other day in the committee, is that I start off concerned about nationwide branching and nationwide banking and foreign purchases, because I do not want to see our financial institutions absorbed into a few very large ones. And I feel very strongly about the health of smaller banks—and I'm talking about not just the very small bank in a small rural town in Utah. As an example, here in Utah we have what we consider very big banks, but certainly in terms of the biggies they're very tiny ones. I think they perform, and I don't want the big banks operating out of New York and California and so on to be able to absorb them. I think that in the long term that would be to the detriment of the nation's banking system. . . .

EIR: We're interested in the effects of the specific IBF proposal, because we think it's going to drastically reorganize the banking system.

Sen. Garn: Well, I agree, and that's why I made the statement that I agree with Heimann: this could by fiat lead to national banking, without Congress having made that decision.

EIR: Do you intend to make a comment yourself in the comment period?

Sen. Garn: My staff is working on my formal comment.

EIR: It's been said that you are particularly concerned about the strategic aspect of nonfinancial intermediaries

taking over whole chunks of the bank lending process. Of course, Walter Wriston brings that up all the time, and he says that's why you need to deregulate the banks, let's all go interstate so we can compete with Merrill Lynch. There are, however, other alternatives.

Sen. Garn: I am very concerned, there's no doubt the banking institutions have a right to be concerned too—Sears, Merrill Lynch, all sorts of big companies that have no real regulation at all, are taking a large chunk of the business. My answer is not to free up all the banks to do the same thing. That opens a kind of competition which I think is very harmful to a lot of the smaller banks. . . . I'm on the horns of a dilemma on something like this, basically I am for less regulation in general, and here we're talking about how do we regulate people getting into the financial institutions business who are not financial institutions.

EIR: Senator, there has been a great deal of discussion within the Reagan administration and the Republican Party around the question: Will Governor Reagan be "Thatcherized"? In particular, given the interest-rate situation, what do you think about Mr. Volcker's monetary policy, and do you think it should be continued? Do you think Mr. Volcker will stay?

Sen. Garn: First of all, I don't know whether Mr. Volcker would stay. But the way I look at the Fed—I feel very strongly even when I disagree with the Fed that they ought to maintain their independence. I remember this really started the first year I was in the Senate, when we held hearings with Arthur Burns, and Henry Reuss at that time talked about passing laws mandating the money-supply targets. He and Bill Proxmire were talking about placing a mandated 13 percent rate of increase in the money supply, and Arthur Burns sat there chewing on his pipe, and he said, "Now, Senator Proxmire, don't you know better than that?" He said, "I'm just not going to. . . ."

When I was mayor of Salt Lake City, we didn't let the arsonists in to run the fire department. And I am certainly not going to say, because I disagree with the Fed sometimes, that we're going to let Congress, the number-one arsonist as far as fiscal policy, who've been so totally irresponsible, take over monetary policy. I think you'd be amazed how much better the Fed would perform with exactly the same actions if Congress would take care of fiscal policy, and you were having balanced budgets, decreased taxes, faster depreciation writeoffs, incentives for savings accounts, for example, a thousand dollars in interest-free earnings on savings accounts, and so on.

EIR: Mr. Proxmire and Mr. Reuss are no longer with us, and we do have a basic problem of capital formation

in this country—what about what Mr. Volcker's policy is doing to actual capital formation?

Sen. Garn: I do think it should be tempered, but I think it can only be successfully tempered if the Congress would enact tax cuts, primarily supply-side tax cuts, stimulate capital formation. Then the Fed could back off. Right now the Fed is simply all by itself trying to cool off the economy, and it does start to work, but it also causes some very serious side effects—for the home-building industry, automobiles, and so on. But if you get capital formation being produced on the fiscal side by Congress, then certainly the Fed can back off, which they should, and help with the capital formation by lowering interest rates.

EIR: Does it matter who's at the Fed's helm in that case?

Sen. Garn: Sure, it could be done with Volcker there. I know that a number of times I have had this discussion with him and other members of the Fed. Volcker has never disagreed.

EIR: Do you have any idea how President-elect Reagan feels about all this?

Sen. Garn: Well, I certainly think he would agree in general with what I have said, he certainly is in favor of supply-side tax cuts, savings incentives, and so on.

EIR: What would be your prognostication on Thatcherization—do you think that's going to happen?

Sen. Garn: No, I don't think it is. I think very honestly that two things are going to happen. Some, the ultraconservatives, are not going to be satisfied with Reagan. Their expectations are too high, and they expect things too rapidly; you don't turn forty-eight years of mismanagement around in a hundred days. But I do think that Ronald Reagan is going to be a far more successful President than most people think; I think his relations with Congress, his ability to turn things around and actually get tax incentives, tax cuts enacted, will surprise a lot of people.

I think the trend will be the important thing, not that we revolutionize the world in a so-called hundred days—but we show the American people that with a Republican President and a Republican Senate, and more conservatives in the House, we really can change the direction the country is going in, get that confidence. I've certainly found over the years something I didn't learn in college, which is how much psychology has to do with this; even though the actual numbers, the economic indicators may not show dramatic changes very rapidly, the fact that they are moving in the right direction means people are willing to invest. I think a lot of people are going to be surprised, the ones who said he's the lesser of two evils.

Indexation of U.S. credit?

by Richard Freeman

In September 1979, money market certificates (MMCs)—time deposits with maturities of 26 weeks issued by commercial banks in denominations of \$10,000 or more—comprised 34 percent of all time deposits under \$100,000, according to figures released by the St. Louis Federal Reserve Bank. In September 1980, the MMCs now comprised 55 percent of small time deposits, a leap of 20 percentage points in a 12-month span.

Making MMCs so attractive is the fact that in contrast to fixed maximum interest rates paid on passbook deposits, the maximum rate payable on MMCs is tied to the discount rate on newly issued 26-week Treasury bills.

As striking as the shift toward variable rates in small-denomination deposits may be, it characterizes the overall shift in the U.S. credit markets. A structural shift of profound importance is under way as the entire market moves toward both the short side and toward variable or movable rates. These rates are very volatile, as opposed to the stability of long maturities for fixed industrial, agricultural or housing investments.

What this means is that the U.S. credit markets will be much more reflective as a whole of the erratic interest-rate movements in the Eurodollar markets. This linkup of U.S. credit markets to the Eurodollar hot-money flows will be heightened should the establishment of International Banking Facilities (IBFs), proposed by the Federal Reserve Board on Nov. 19 by a six to zero vote, actually be implemented.

In short, the U.S. credit markets are dangerously close to becoming *indexed*. This is the system worked out and tried by economist Milton Friedman in Chile, Argentina and Israel, where basic items—such as cost-of-living adjustments and housing costs—are indexed to the rate of inflation. In Argentina and Israel, the rate of inflation is now triple-digit.

The way this indexation is being applied to the U.S. is the following: As U.S. short-term rates fluctuate upward with inflation, all loan contracts, for items including mortgages and plant and equipment costs, will become in effect indexed to the sharp jump in interest-rate changes. The U.S. will move into hyperinflation.

MMCs represent only the front end of the profound

shift in U.S. credit market structures. Other nodal changes in this structure include:

Changes in corporate debt: Corporations have been increasing their short-term exposure for a while now. The net effect is that, while corporate borrowers have usually run toward the commercial paper market in great volume to issue their unsecured IOU's of 270 days or less, the commercial banks are retaliating, as noted by the Nov. 17 *New York Times*, by offering what are called LIBOR loans. These are loans pegged to the London Interbank Offered Rate, which can sometimes be three points below the U.S. prime. Overall, this abundance of short-term instruments, combined with Volcker's credit crunch, has lowered the ratio of bonds outstanding to total bank loans and commercial paper liabilities from 1.5 in 1976 to 1.1 in 1980.

Within the system of corporate bonds there has also been a change. There exist in the corporate bond market denominations called medium-term notes, which have maturities of only 5 to 10 years instead of the 20 to 30 years usually carried by corporate bonds. In 1980, 42 percent of all corporate industrial bonds were of the 5-to-10-year variety.

Housing debt: Effective July 1, 1979, savings and loans have been authorized to issue variable-rate mortgages, which are adjustable by 1 percent per year. This was followed when effective April 3, 1980, thrift institutions were allowed to issue renegotiable-note mortgages, which have a 3-, 4-, or 5-year term, secured by a long-term mortgage of up to 30 years, and automatically renewable at intervals.

In the short time this type of mortgage has been around, it has become anywhere from 5 to 20 percent of new thrift institution mortgage commitments. The Monetary Control Act of 1980 will give the thrift institutions enlarged powers to issue increased volumes of variable-rate and renegotiable-rate mortgages.

Consumer investment: In addition to the MMCs above, which are a form of consumer deposit, there is the explosion in the growth of money market funds, which are replacing traditional equity investments, and are pegged to the prime lending rate.

Appraising the importance of the change that is occurring in the domain of corporate bonds, in a comment that could be applied to the entire U.S. credit markets as a whole, James O'Leary, chief economist for New York's U.S. Trust, stated Nov. 20: "Many of the traditional investors in long-term fixed rate bonds and mortgages are being forced to sharply cut back their investments in such obligations." He added, "This change isn't cyclical, but long-lasting."

Biochemistry key to agriculture's future

by Vin Berg

The mighty gains in U.S. farm productivity achieved in the years since World War II were based on hybrid crop strains, pesticides and herbicides, improved nutritional and medical practices in animal husbandry, and increased use of energy and fertilizer. The new revolution in the next two decades is likely to have a different basis: biochemistry in application to both crops and farm animals.

In particular, three areas of potential breakthrough stand out: development of new photosynthetic capacities in plants; control of bioregulators, the chemicals that control plant growth and differentiation; and increase in beef reproduction rates through twinning.

Photosynthetic capacities

The capture and transformation of solar energy into new biological material—foodstuffs—occurs at about 1 percent efficiency in a great many important crop plants. If this could be increased to just 2 percent, it is possible that twice the yield could be realized, assuming additional farm inputs.

Large differences in net photosynthetic efficiencies exist in nature, between C3 and C4 plant types, for example (C3 and C4 refer to the metabolic pathways that differentiate plant efficiencies). C3 plants, which have the lower efficiency, include wheat, rice, soybeans, potatoes, peanuts, barley, sugar beets, and bananas. A typical C4 plant is maize.

One reason for C3 plants' lower efficiencies is that there is a much more rapid loss of photosynthetically fixed carbon dioxide, through the process of photorespiration. C3 plants photorespire at rates three to five times those of C4 plants. Different metabolic pathways or different anatomical makeup may account for this.

Researchers aim to transform C3 into C4 plants. One potential method is protoplast fusion techniques, in which individual cells are denuded of their cell walls, and joined together to form hybrids. The trick is to combine the desired characteristics and genetic makeup

of each. Recombinant DNA techniques, another avenue of research, would "engineer" C3 cells with genes from C4 plant cells. Selection techniques would treat C3 plants with radiation or particular chemicals to increase their number of mutations, and then grow them out under conditions that allow the transformed plants to be selected out and subsequently used to develop crops.

Bioregulators

Bioregulators are natural or synthetic compounds that can be applied to crops to stimulate growth or enhance ripening, increase the harvestability of a crop, or even prolong shelf life of the farm-food product.

For example, tricontanol, a natural fatty alcohol isolated from alfalfa, has experimentally demonstrated increases in yields from 34 to 63 percent in asparagus and from 11 to 24 percent in sweet corn. Application of tricontanol to the guayule plant results in a twofold to sixfold increase in natural rubber yields.

Despite successes, little is understood about the basis for this particular bioregulator's effects. What tricontanol demonstrates is the ability to bring about substantial changes in crop yield through such biochemical manipulators—not that we have yet mastered them.

Twinning capacities—multiple births in beef cattle and other livestock—could massively increase the supply of animal protein for human populations. The leading scientific obstacle to increased beef supplies, for example, is the bovine reproduction cycle itself: the cow produces only one calf every year, and an average of five calves over its lifetime. One result is that a substantial portion of any nation's herd is tied up in the breeding process at all times.

Twinning research is focusing on several approaches, including selection and hormone induction. Perhaps the most promising method is that of nonsurgical embryo transplantation, which occurs when multiple fertilized eggs, obtained from heifers bred just prior to slaughter, are transplanted to the unbred recipient. Work is being done to fertilize the eggs *in vitro*, combining the most favorable genetic traits of desired donors.

The recent progress of biochemical sciences leaves little doubt that breakthroughs in each of these areas are possible provided governments commit themselves to realizing the increases in productivity each would ensure. In America's land-grant research and extension institutions, a broad-based and experienced research staff needs only the funding to carry out the required research, and to ensure that the next generation of scientists is prepared to make further levels of breakthroughs. Well-funded extension services at state universities and farm agencies would ensure optimal testing and use of new results from the early stages.

World Trade

by Mark Sonnenblick

Cost	Principals	Project/Nature of Deal	Financing	Comment
NEW DEALS				
\$245 mn.; \$100 mn.	Italy/Poland; Italy/ Czechoslovakia	Montedison, Italian state-run chemical co., has signed pact to exchange \$245 mn. chemical products with Polish counterpart (Ciech) over 5 years; Montedison signed separate \$100 mn. chemicals exchange deal with Czechoslovakia.		
\$210 mn.	U.S.S.R. from West Germany	Polystyrene plant contract won by Hoechst.		
\$157 mn.	Iraq from France	Thomson-CSF has won turnkey deal for 27 new electronic telephone exchanges with 315,000 lines. Follows contracts for electronics industry and radio stations reported <i>EIR</i> , Sept. 2 and Oct. 7.		Part may be made in new Iraqi electronics industry.
\$150 mn.	Brazil from Canada	Brazil has approved controversial Alcan 200,000 tpy aluminum hot rolling mill located in state of Rio.	\$80 mn. from Royal Bk. Canada; remainder from Brazil.	Follows Brazil blocking D. K. Ludwig's illegal sale of bauxite reserves to Alcoa.
\$126 mn.	Taiwan/U.S.A.	General Motors will own 45% of joint venture with 3 local machine producers to make heavy-duty trucks and buses.		Approved.
CANCELLED DEALS				
\$2.2 bn.	China from Japan/ West Germany/ U.S.A.	China has formally told Nippon Steel that 2nd phase of \$5 bn. Boashan steel complex will be indefinitely postponed. Involved are \$1.3 bn. blast furnace and related plant committed to Nippon and \$900 mn. in contracts already signed. These include \$500 mn. deal signed in June with Nippon, Schloemann-Siemag and Wean-United of Pittsburgh for cold steel rolling mill.	China miscalculated foreign exchange flows.	
\$180 mn.	China from Japan	Chemical plant.		
\$200 mn. per year	Brazil from China	Petrobras has cancelled 6-year contract for two 300,000-ton oil supercarriers with Chinese charter operator C.I. Tung. The Brazilian company charges Tung with bad faith in charging 150% above market price, in prematurely discontinuing contract and in having substandard labor conditions.	Tung illegally prediscounted whole contract at London bank.	Petrobras also seeks end to Y. K. Pao charters, shifting business to Arabs.

Dollar in the barrel?

The long-awaited cut in sterling interest rates won't help the dollar very much at all.

When British Chancellor of the Exchequer Geoffrey Howe announced a 2 percent cut in Britain's Minimum Lending Rate (MLR) on Nov. 24, it appeared as if the U.S. dollar could have strongly benefited from this development.

On the contrary; within hours of Howe's announcement before Parliament, leading London and New York bankers put out the word that the dollar is the most vulnerable currency around, and that a dollar crisis may be just around the corner.

Although such predictions must always be taken with a grain of salt, the leading bankers in question are throwing down the gauntlet to the Reagan transition team: if a convincing U.S. anti-inflationary policy is not adopted, then the dollar will be hit during 1981. What these circles consider a convincing anti-inflationary policy, moreover, is nothing less than the harshest British-style shutdown of the U.S. economy.

The MLR cut announced on Nov. 24, which reduced Britain's equivalent of the discount rate from 16 to 14 percent, was several months in the making. For months leading up to this reduction, sterling and the dollar shared the role as the two highest-interest-rate currencies among the leading industrial countries.

A few hours after Howe mandated the cut, British banker David Montagu, chairman of Merrill

Lynch International, held a press conference to explain why the reduction in the MLR would not lead to any major speculative outflows out of sterling.

Currency traders had been concerned about the possibility of a dramatic downturn for sterling, being well aware of the fact that the market strength of the dollar and sterling (for example against the battered West German mark) had been based on interest-rate earning differentials for many months.

Speaking from New York after addressing a conference sponsored by the *International Herald Tribune*, Montagu stated that any potential weakness in the pound would be a very short-term tendency. The pound is a "petrocurrency," he added, making it stronger than would be justified by Britain's trade performance.

Montagu then stated that it was the dollar which was "chronically weak," currently propped up by high interest rates alone.

The pound dropped 2 cents on Nov. 24 on international markets. On Nov. 25, it recouped back to \$2.35. While no one expects it to recover to the \$2.45 range it touched during recent currency attacks against the West German mark, British banking and industry have no interest in keeping the pound at those levels in any case. The lowered pound exchange rate will now marginally promote British exports.

Other economists attending the New York conference endorsed Montagu's views in interviews circulated the same day. An analyst from Goldman, Sachs, for example, told the press that it is the dollar which is now viewed as a "suspect currency."

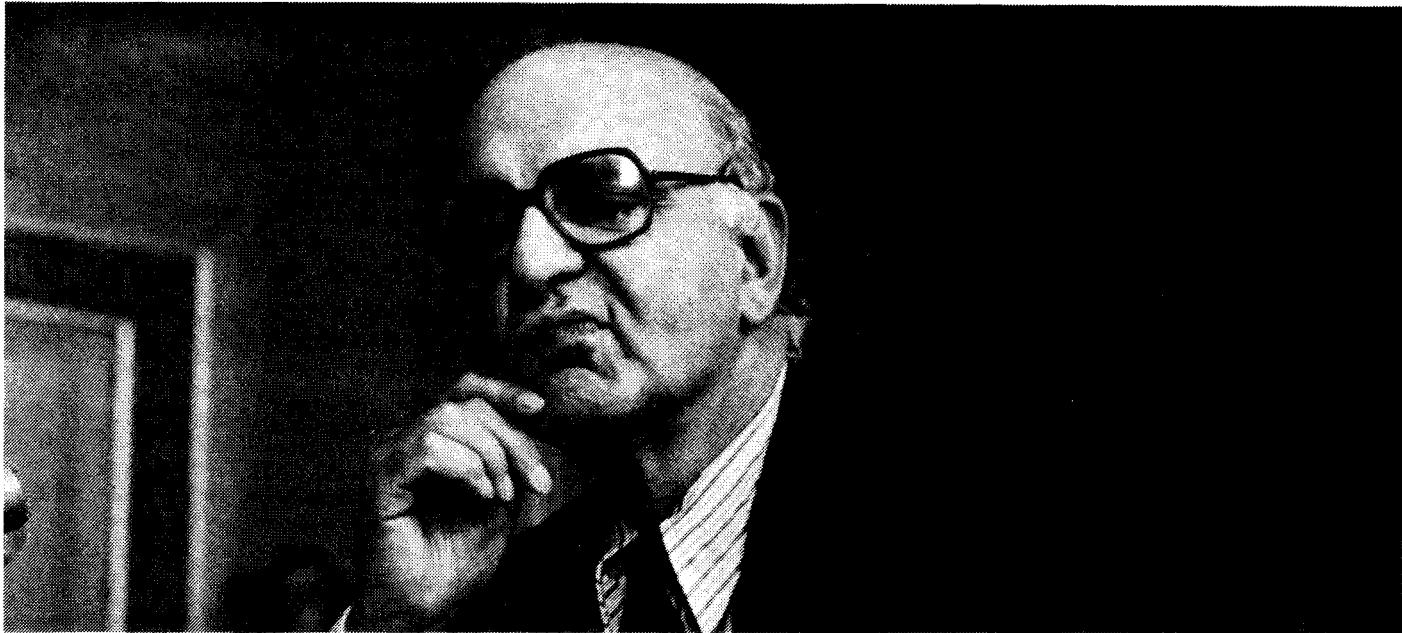
One of the short-term developments that coincided with the MLR cut, and reinforced the perception that the dollar faces tough times, was the Nov. 25 announcement of U.S. money-supply growth for the latest reporting period, ending Nov. 12.

The figures showed that for the first two weeks of November, M1-B grew a whopping \$5 billion. The release of these figures undermined confidence in the dollar to an extent sufficient to "pad" the downward adjustment in the sterling exchange rate.

With British interest rates falling, monetarist economists are now saying that it is money-supply growth in itself, apart from interest rate differentials, which will test currency viability in 1981.

For example, the Heritage Foundation has just handed over to Reagan's transition team a policy recommendation document which states that if the explosive U.S. money-supply growth is not brought to a halt, the dollar is finished as the world reserve currency. The document proposes that Reagan impose a zero growth rate on M1-B for his first year in office.

Heritage-circuit economists report that if he adopts the recommendation, the dollar will remain strong. This sort of shock treatment, though, would shut down the U.S. economy even faster than Sir Geoffrey Howe has managed to shut down Great Britain's.



“Watchful observers tend to ask themselves whether Volcker and Miller are merely incompetent or downright insane.”

— Lyndon H. LaRouche
Contributing editor, *Executive Intelligence Review*

When Federal Reserve Chairman Paul Volcker introduced his credit control policies last year, the EIR was quick to sound the alarm to the danger of “Dr. Volcker’s horse liniment.” The Volcker package would not be anti-inflationary, EIR warned, but would carry the “Friedmanite stagflation” of the Nixon years to extremes.

Finally, red-faced economists and government officials are now admitting that “something” went wrong.

The Executive Intelligence Review is now making available a comprehensive series of studies on the American economy to show why the Volcker measures had to fail, why the country’s economists missed the boat in forecasting the trends for 1980, and why EIR’s LaRouche-Riemann econometric model was right on the mark.

Can the American Economy Recover?

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Business Briefs

Gold

Price subject to interest-rate moves

The gold price was hit this week by the shift in the interest-rate differential between the dollar and sterling. Gold fell \$15 between Nov. 24 and 25 on news that Britain has cut its Minimum Lending Rate 2 percent, and that the U.S. prime rate has risen from 17 to 17.75-18 percent.

For months, most gold purchasers have been borrowing dollars to make investments in gold. The cost of dollar borrowing is quickly becoming punitive. London sources suspect that some gold traders will wind down their dollar positions and shift into cheaper sterling borrowings in order to return to the gold market on a medium-term basis.

On Nov. 26, gold recovered to \$623, due to purchases to cover short positions. Renewed major political instability in Poland also encouraged European purchases of gold.

For the coming weeks, however, gold remains a strong investment. Evidence is mounting that the U.S. dollar may be hit with a heavy speculative attack.

Real Estate

CHIP supports rent control abolition

The U.S. Supreme Court is currently reviewing a suit taken out against New York rent control laws. The backers of the suit, which began in 1969, are from a New York landlord association called the Community Housing Improvement Project (CHIP). The lawyer for CHIP in the current hearings before the Supreme Court is Roy Cohn, erstwhile defense attorney for underworld figures and for the drug-ridden New York discotheque Studio 54.

CHIP operates as a well-organized bloc within a larger landlord/real estate organization called the National Multi-

Housing Council (NM-HC), which was formed in 1978 to "get rid of rent stabilization," according to one of its officials. NM-HC supports "gentrification" of New York multi-housing units, along the model of Washington, D.C., as well as the removal of minimal real estate tax guidelines.

"What real estate represents," the NM-HC spokesman stated in an interview, "is a lot of joint ventures and syndications who need to shelter income." There is no question that in the case of New York this includes a large quota of illegal funds.

The Supreme Court has decided to employ special procedures; it will not judge on the merits of the specific case, but rather examine whether the New York rent-control system is being properly applied.

Industrial Strategy

Chinese cancel some foreign projects

Several new cancellations and "indefinite suspensions" of major contracts with Japan for plant deals indicate that China's foreign exchange crisis and internal upheaval is even worse than previously suspected. China officially informed Japan's Nippon Steel that what had been rumored for weeks was true: China was cancelling the second phase of the \$6 billion, 6 million ton per year steel project at Baoshan near Shanghai. Only the first \$3 billion phase is being continued, for 3 million tons of basic products.

With China's own grain production down 5 percent this year, obligating the country to spend its precious foreign exchange on grain, the plant was no longer affordable in the regime's view.

The cancellation was only one of a series made as part of the Deng regime's shift to light industry from heavy industry. Other cancellations this week included suspension of a \$180 million chemical plant project with Japan and a sudden unexpected cancellation of a \$20 million

refrigerator compressor project with Japan's Sanyo, aimed at supplying consumer goods to urban workers.

Japanese observers characterized the Baoshan suspension as indicative of the same inept management that caused overextension in the first place. They pointed out that \$9 billion in infrastructure for roads, harbors and utilities must be built regardless of whether the plant is for 3 million or 6 million tons. To cancel the second phase just wastes that investment, they said.

U.S. Auto

Chrysler reduces overtime, offers new rebates

Chrysler told *Ward's Automotive Reports* on Nov. 17 that it will end overtime at the Detroit, Michigan and Wilmington, Delaware plants that were producing its new line of "K-car" compacts. Chrysler blames the overtime drop-off on insufficient sales. The company stated to *Ward's* that next year it will gear up for only a 490,000 level of auto sales of the K-car, instead of the 600,000 predicted in its effusive press releases in October, when the new car line was unveiled.

Chrysler has also started offering \$250 rebates to its stockholders and employees of its supplier companies in an attempt to stimulate 1981 model sales. Chrysler will offer a \$750 rebate to those customers who buy Chrysler cars with fenders that are alleged to have a tendency to rust. Chrysler said it is offering the rebate instead of changing the fenders because it can't afford to take the cars back to the factory for repairs.

International Credit

British Tory proposes a revamped EMS

Speaking before a New York foreign-exchange conference, British Tory parliamentarian Edward Heath outlined the

Briefly

● **TURKEY** is being "bridge-financed" as the IMF adjustment program is ruthlessly carried out by the military regime. The Swiss government has joined an OPEC aid program for Turkey, and has proposed a 35 million franc interest-free loan to the Swiss parliament. The World Bank has in turn approved a \$75 million loan to Turkey for 17 years, with a 9.25 percent interest rate.

● **SPOT OIL PRICES** have lost their upward pressure, and began falling on the Rotterdam market Nov. 26. Reports that Iran and Iraq had resumed oil shipments, and that France had hit adequate supply levels which would take France off the spot market, both contributed strongly to the price ease. Spot prices are sitting at a little over \$40 a barrel.

● **JACK KEMP**, the New York congressman in the "supply-side" grouping of the Reagan economic transition team, told the press Nov. 26 that the President-elect should attempt to build a "new consensus" around policies of economic growth. The Buffalo legislator warned against moves to dismantle "New Deal economic programs" or couple tax cuts with massive budget cuts. "There is no reason to pick fights with labor," he added, warning that an austerity drive could "Thatcherize" Reagan. "If the Republican Party fails to bring prosperity, the American people will turn away from it," he said.

● **GREAT BRITAIN** proposes an emergency plan for immediate pooling of European oil stockpiles through the International Energy Agency. Launched at a meeting of European Community energy ministers, the proposal is backed in the United States by Wall Street oil consultant Walter J. Levy. London press outlets have escalated predictions of a new crisis and "risk to oil supplies" in the Middle East.

conditions under which Britain would consider joining the European Monetary System (EMS). Heath's proposal would turn the EMS into a "regional currency bloc" which would act in coordination with the International Monetary Fund (IMF). Heath urged that the EMS be used to "coordinate more closely" the anti-inflation and fiscal policies of member European countries. When the EMS was founded in March 1979, its statutes specifically left out any mention of coordination of fiscal policy.

The rationale for this deliberate deletion was that under conditions of improved monetary stability, as well as increased use of gold reserves in central bank monetary transactions, inflation would be offset by increased potential for export orders and domestic capital formation. It was due to British abhorrence of the capital formation approach that Britain refused to join the EMS at that time.

During his address in New York, Heath urged that the EMS be used to devise technical mechanisms which would link interest rates, currency parities, and other economic performance figures through a "divergence indicator." Once in place, he noted, the EMS could be expanded to include the U.S. dollar and Japanese yen. This would mean that EMS authorities would have power over individual members' reserves.

Heath also reiterated the Brandt Commission's demand that the oil-producing countries shave off their surplus earnings to finance Third World debt.

Agriculture

U.S. rural transport co-ops launched

A pilot program for rural transportation cooperatives was recently announced by Secretary of Agriculture Bergland. The USDA program is aimed at testing the practical viability of cooperative ownership of local railroad branch lines, trucking equipment, freight handling and

transfer facilities or vehicles as needed. Organized in geographical areas, the cooperatives could include local governments, individual farmers, existing cooperatives and businesses as members.

Most observers view the program's significance in light of the comprehensive legislation for deregulation of the nation's railroads signed into law by President Carter Oct. 14. The deregulation program will force many small shippers out of business and cause the abandonment of numerous branch lines deemed uneconomical by the rail companies. In fact, the new law contains explicit provisions for expediting track abandonment, and also provides for local purchasers to have first choice of the lines after other railroads have declined to buy them. These branch lines are in most cases critical to the immediate area.

Drug Revenue

Seaga: pot is Jamaica's lifeline

Jamaican Prime Minister Edward Seaga called marijuana the lifeline of the nation's economy during an appearance on the ABC television show "Face the Nation" Nov. 23. "Jamaica," said Seaga, "more than ever depends on its marijuana exports to survive. During the past few months, marijuana became the lifeline of the economy, as the Bank of Jamaica became unable to provide needed foreign exchange."

Asked if the electoral strength demonstrated by the Moral Majority movement in the United States would interfere with Jamaica's ability to export marijuana, Seaga responded that he too was elected by "a moral majority." He claimed that since there was no scientific evidence that marijuana is harmful, "there can be no moral issue against it."

Seaga said that production and export of marijuana is still illegal in Jamaica, "but our security forces find themselves unable to cope" with drug traffic, and so long as this situation persists, "it will continue to grow."

LaRouche-Riemann model projects destruction of U.S. living standards

by David Goldman

EIR released a computer-based econometric projection of a first-quarter 1981 economic downturn on Nov. 11, employing the LaRouche-Riemann economic model to evaluate the consequences of the Federal Reserve's decision to push interest rates back up to their early-1980 peaks. What the computer-based projection showed is that the multiplied cost of debt service in the U.S. economy due to a prime rate of 17 percent or over would, by the first quarter of next year, force the liquidation of inventories and the layoff of more of the labor force.

Since our forecast appeared, something of a consensus has appeared among leading forecasting services that the Fed's policy would, indeed, throw the American economy back into a downslide early in 1981. Even the New York Federal Reserve Bank, in its most recent quarterly report, warns that continued tight money will produce a "double-dip" recession, an indication that this is exactly what the New York Fed wants.

In addition to the aggregate economic projection—whose premises have been more than borne out over the past three weeks by the continued ferocity of Fed interest rate policy—we present here the same projection, broken down into the key economic sectors. The projections accompanying were produced with a 30-sector model of the U.S. economy, employing a data base prepared by the Inforum group at the University of Maryland and updated by *EIR* staff. Apart from the overall course of the economy, we obtain a margin of important additional information from the multi-sector breakdown of the next leg of the recession: it shows us that the division of the American economy into "sunrise" and "sunset" sectors, as advertised by the now lame-duck economists of the Carter administration, will be complete if the Federal Reserve program completes its present course.

There is a big element of fraud in the way in which the "sunrise" versus "sunset" industry distinction has been presented. What is true is, of course, that a number of American industries are technologically obsolescent and cannot compete with manufactured goods produced in Japan and, increasingly, in the newly industrialized countries (NICs). What is fraudulent is the

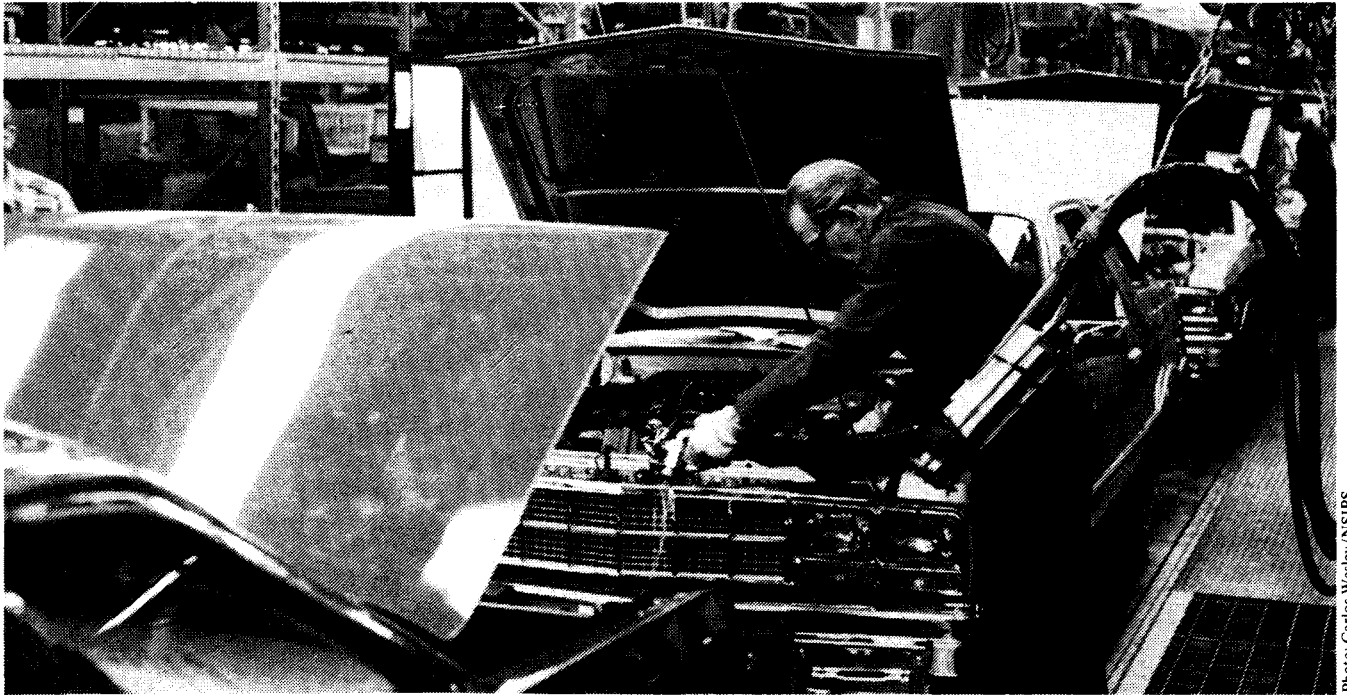


Photo: Carlos Wesley/NSIPS

An assembly line just before Ford's Mahwah, New Jersey plant closed in June.

purported concern by such bodies as President Carter's Economic Commission on the 1980s, chaired by General Motors economist Marina von Neumann Whitman, for technological obsolescence as such.

The computer-based analysis conducted with the LaRouche-Riemann model demonstrates what the actual concern of the proponents of industrial triage is. The thrust of the present, and continuing, economic depression is the destruction of American living standards. The collapse of the economy is not uniform, but directed against those industries which produce the material components of that living standard. Since Fed Chairman Paul Volcker, at the outset of the October 1979 credit crunch, informed the Senate Banking Committee that "the American standard of living has got to fall," in Oct. 15, 1979 testimony, we conclude that the picture presented here represents what Volcker had in mind.

The LaRouche-Riemann model begins with a cleaned-up set of national income accounts for the U.S. and other economies. Rather than Gross National Product, which indiscriminately lumps together machine shops and gambling casinos, the model's data base breaks down the economy's tangible output into:

- 1) Consumption of the productive (i.e., goods-producing) work force;
- 2) Industrial consumption of raw materials and semi-finished goods;
- 3) output in surplus of the replacement cost of production, or (1) and (2);
- 4) the division of the surplus output into overhead expenses—white-collar workers, office buildings, na-

tional defense, and so forth—and the margin of reinvestible surplus. This form of national income accounting, which derives from classical economics pre-John Stuart Mill, enables us to ask and answer basic questions which GNP accounts blur over:

- 1) How much of our output will contribute to expanding output, and how much is consumed as overhead that does not directly enhance the capacity to produce?
- 2) What is our actual rate of profit in real terms, i.e., how does the reinvestible surplus product compare to replacement costs (the total productivity, or potential growth rate)?
- 3) What is the global productivity of labor, i.e., how much increment of labor is required to produce an additional increment of surplus?

The total size of output, as such, is irrelevant; what counts is how the composition of such output determines the future direction of economic growth or decay. By analyzing the internal composition of output of both the total economy and the individual sectors of the economy in this fashion, we can accurately state the true state of affairs. The LaRouche-Riemann model, in its present generation of development, treats the economy as a thermodynamic system, with a set of causal equations that ask how a given force—labor—acts through a given medium, the capital stock at a given productivity.

This enables us to simulate the economic impact of political decisions which determine the reinvestment of the surplus tangible product, or, in the case of the monetarist credit crunch, prevent its reinvestment and cut its circulation. This is not a "crystal ball forecast,"

but an accurate measurement of how the real, tangible economy will operate under changed political (i.e., monetary and fiscal) circumstances.

What is immediately evident from the projections for the total economy, the first set of computer-generated graphs, is the steepness of the decline that will ensue, according to the LaRouche-Riemann model, after the present round of interest-rate increases. (The data presented are a moving yearly average of values, rather than a representation of monthly or quarterly fluctuations.)

But most important are the consumption data, the graph displaying the consumption of the productive (goods-producing) work force. This is projected to fall from \$91 billion (in constant 1976 dollars) to \$67.5 billion between 1979 and 1982, a fall of 26 percent. That appears out of line with the fall in real after-tax income since the recession began, by only a few percentage points on a year-to-year basis since the recession began.

However, the consumption data employed by the LaRouche-Riemann model are different from the tax-derived national income data employed in GNP accounts. From the standpoint of the economy as a whole, it asks what total volume of consumer-goods production the economy requires to put in motion the total production of the economy. The collapse of actual consumer-goods availability, measured by the more than 30 percent declines in the auto and housing sectors, is much more extreme than the personal income figures indicate. If it were a temporary situation, all the discrepancy would show is that households are postponing necessary replacements of consumer durable items, including housing and autos, i.e., they have extended the useful life of these items past what is desirable.

However, what the LaRouche-Riemann model results imply—that this represents a permanent decline in the availability of housing and auto—is demonstrably the case. The financial effects of the Volcker policy, as Richard Freeman shows in the case of auto (see page 27) include the destruction of the infrastructure necessary to revive these industries. *EIR* showed in a cover story Sept. 29 that the deliberate policy of the Federal Reserve is to transform the American banking system along British or Canadian lines, absorbing most of the 20,000 commercial banks and thrift institutions in the United States into a national branch banking system controlled by the leading money-center financial institutions. If that transformation takes place, the likelihood that the flow of savings will resume and find its way to the intermediaries who finance housing will be negligible.

The strange but intentional result of the wholesale destruction of the consumer goods industries appears in the graph displaying labor productivity for the total economy. The LaRouche-Riemann model measures labor productivity with the term, S/V , that is, the tangible goods production above replacement cost (surplus) di-

vided by labor input, measured in terms of tangible consumables allocated to labor (variable capital). As noted, this ratio asks what margin of its total resources the economy must devote to the consumption of the households of goods-producing workers in order to produce an additional margin of surplus. This measure of labor productivity for the total economy is superior to the conventional output-per-manhour measurement.

It is possible to increase the output per manhour of workers digging holes in the ground and filling them up again, or, for that matter, of workers producing pollution-control equipment. However, no increase in their output per manhour will yield any increase in economic surplus whatsoever. In certain cases output per manhour provides a useful local index of productivity, but it is basically misleading in the case of the total economy.

The behavior of our productivity measure in the 1981-82 projection shows why Paul Volcker's ideological mentor, economist Milton Friedman, argued that the Nazi economy was successful. The accompanying graph shows an anomalous rise between 1979 and 1980 from an index level of about 9 to 9.8. Even though the total surplus of the economy is falling, and the net investible surplus is negative—meaning that the economy is not even replacing its capital and labor inputs at previous values—the apparent productivity is rising. The reason for this strange result is simple: consumption of the productive labor force falls dramatically, faster than the overall drop in output, such that the economy is momentarily able to function with relatively less consumption.

Volcker is adhering to Milton Friedman's textbook argument that Hitler succeeded in suppressing inflation because he successfully suppressed consumption. In fact, Friedman argued in his study of the Nazi economy that Hitler would have been even more successful had he suppressed consumption further, a conclusion shared by liberal economists like J. K. Galbraith and Wassily Leontief, who made the same point in the 1946 Strategic Bombing Survey, which provided much of Friedman's source material.

Friedman's hero in the matter of the Nazi economy, Finance Minister Hjalmar Schacht, did not—as Paul Volcker has—collapse consumer goods output upon taking power. The 1929-1931 depression had taken care of that before the Nazis seized power. However, he eliminated all investment in consumer industries and held current production static at depression levels. The replacement of the existing stock of consumer durables ended, and the living standard fell annually by the depreciation rate of the consumer durables stock.

It is obvious that if a national economy can operate for any period of time with less consumption, labor, capital goods, energy and other resources are more freely available for other uses, and the economy may show greater "productivity" in the short run. In the German

case, the result was a collapse of availability of skilled labor that gradually killed the Nazi war machine, a point ignored by the ideologues of the Strategic Bombing Survey or the University of Chicago. However, Volcker and his supporters have chosen to ignore what the effects of reduced consumption on the demographic potential for productivity are in reality. As we reported in a Sept. 2 economic survey, the perspective associated with the terms “sunrise” and “sunset” industries starts from a proposal to reduce consumption.

The comprehensive statement of this policy appeared earlier this year in a volume released by the American Council of Life Insurance, *Capital, Efficiency and Growth* (Cambridge, 1980), edited by International Monetary Fund economist George von Furstenberg. Von Furstenberg concluded, “It is disquieting that household capital, primarily residences, has grown almost twice as rapidly as business capital. Before declaring a generalized capital shortage, one should also recognize that there is relative-ly too much capital in sectors with low efficiency.”

“Sunrise” and “sunset” industries

The LaRouche-Riemann model’s multi-sector analysis demonstrates plainly that a major shift in capital flow has occurred, along the direction von Furstenberg proposed. We show accompanying results for 10 representative sectors, divided into three groups. These are growth industries, including oil and gas production, aerospace and non-auto transportation equipment, and electric utilities; worst-affected industries, including construction, rubber, iron and steel, and motor vehicles; and moderately affected industries, including food processing, non-electrical machinery, and electrical machinery.

Although it should be obvious, on the face of it, why the American economy will suffer from reduced consumption, the profile we obtain from this projection of the continued recession makes the Fed’s policy errors appear monstrous. The only industries likely to sustain a modest growth rate are growing in large part for the wrong reason, or at least for reasons that are not encouraging for America’s economic future. In any event, the projected rate is likely to decline by 1982.

The three industries that showed growth are the sectors noted above. Aerospace will grow for the reason that the stock market suspects, additional defense procurement. However necessary—necessity is a matter outside the scope of this report—defense procurement makes no direct contribution to the economy, since its product is unusable for further production. And although oil and gas output shows considerable growth, its projected growth rate drops off from 5.6 percent in 1980 (estimated) to 3.2 percent in 1981 and 2 percent in 1982. Every oilman knows the reasons for the drop, and they include more than the windfall profits tax. There

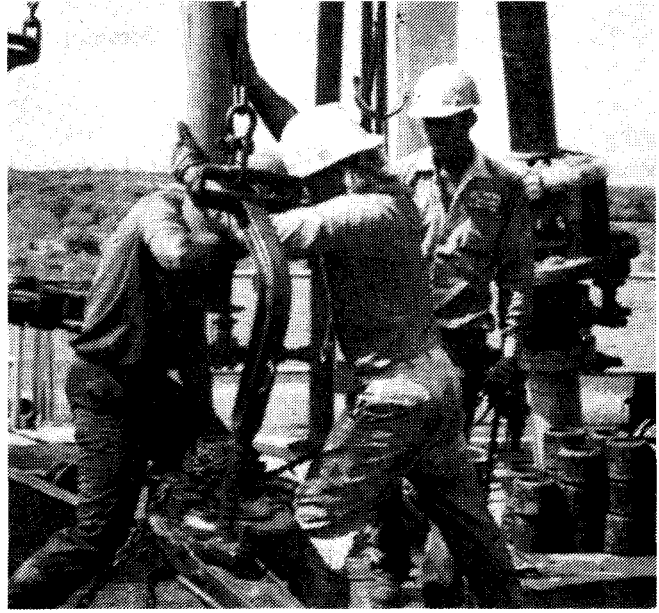
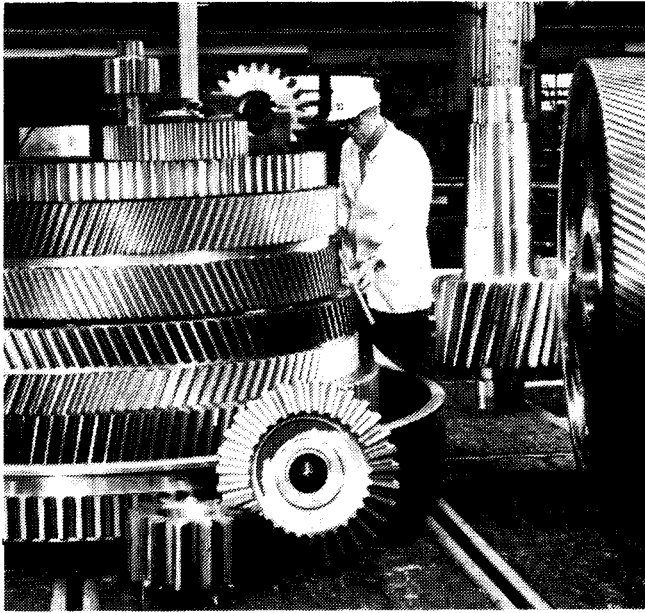
are already severe shortages of oil-drilling equipment, particularly seamless pipe, at a moment when the industries that produce oil-field equipment lack the resources or the confidence for major expansion programs.

While it is encouraging that the United States is increasing oil and gas production, it is also the case that the expansion barely restores the level of drilling of 25 years ago, and that the rise is due to the jump in the oil price, which imposes a tax on the rest of the economy. Furthermore, as noted, the sector’s technological base is far too narrow for sustained growth.

In the case of the so-called “sunset industries,” there are no surprises except the severity of the collapse. What is most important in the series of graphs that include construction, iron and steel, rubber, and motor vehicles is that the “free energy” ratios for three of the four sectors turn negative in 1979 and remain negative for the succeeding years. That is, the model projects a massive disinvestment in auto, rubber, and steel by 1982 of a scale implying the corporate reorganization of most of these sectors. And, as the following case study of the auto industry implies, we are extremely close to shutting down the better part of the auto industry’s productive capabilities in the near future.

The intermediate group of sectors, which show fairly moderate decline, perform better than worst cases for intuitively obvious reasons. Food processing, for example, maintains output levels because food is the last item to be removed from the household budget. Electrical machinery and non-electrical machinery hold up compared to the rest of the economy simply because the capital stock of industry is so depleted that it is impossible to do without a certain level of replacement no matter what the economic environment. However, the basic distinction between the “sunrise” and “sunset” industries is the outstanding result of this analysis. To summarize the results, it is evident that the destruction of the consumption sectors has succeeded according to Volcker’s objectives. This has the intended effect of increasing the economy’s apparent productivity according to the wrongheaded criteria cited earlier. Yet it is equally clear that this rise in apparent productivity is insufficient to sustain real growth in even a handful of economic sectors, and creates the preconditions for irreversible dissolution of America’s economic strength.

What the monetarists who now advise President-elect Reagan to maintain credit-austerity when he takes office have in mind is not the simple-minded “stabilization crisis” which brings prices down and creates the basis for recovery. This is the public-relations feature of the program. The actual objective is to build in a decline in American living standards—as in Germany during the 1930’s—by eliminating the replacement of the stock of consumer durable goods for the remainder of the 1980s.



The model's projections

The following series of graphs shows the LaRouche-Riemann model's measurements of the state of the physical economy of the United States, for the total economy and for 10 subsectors, using historical data through the third quarter of 1980 and projections through 1982.

The projections are not a forecast as such, but a measurement of the effects on the economy of the Federal Reserve chairman's recent second round of credit tightening if continued through next year. All data are moving averages of annual values (therefore fluctuations within individual years are not shown).

All data are expressed in constant 1976 dollars except for ratios.

The measurements shown are selected from 48 measurements generated by the computer model for each of 30 subsectors. For each sector, computer-generated graphs display sectoral surplus (the equivalent of value added in physical terms); tangible consumption of the productive workforce of each sector; and the rate of gross operating profit, or free energy ratio, in physical terms (tangible output in excess of replacement costs, raw materials inputs, and labor consumption divided by the capital and labor inputs).

For the total economy, the three cited measures are shown as well as total consumption of raw and semifinished goods, labor productivity, and net reinvestible surplus.

The 10 sectors displayed (out of 30 analyzed by the multi-sector model) are shown in three groups:

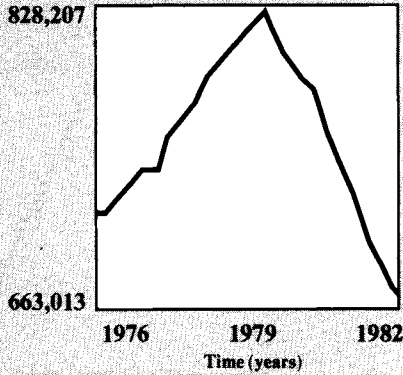
- 1) growth sectors (aerospace, oil and gas, and electric utilities);
- 2) worst-case sectors (construction, rubber, iron and steel, motor vehicles);
- 3) intermediate sectors (food processing, non-electrical machinery, electrical machinery).

Aggregate U.S. economy

Growth industries

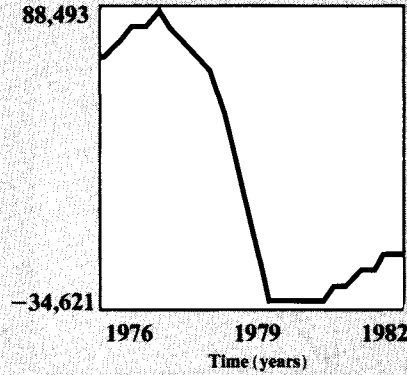
Surplus

(millions of 1976 dollars)



Reinvestible surplus

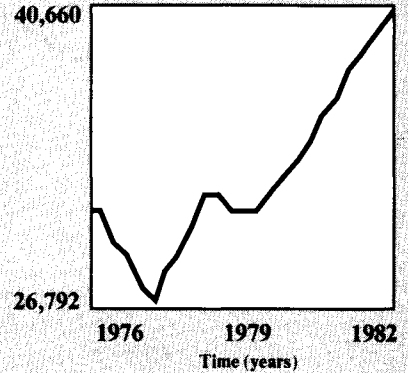
(millions of 1976 dollars)



Oil and gas production

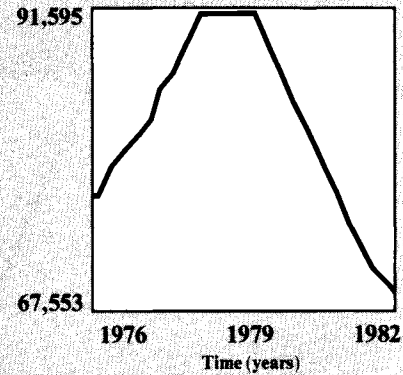
Surplus

(millions of 1976 dollars)



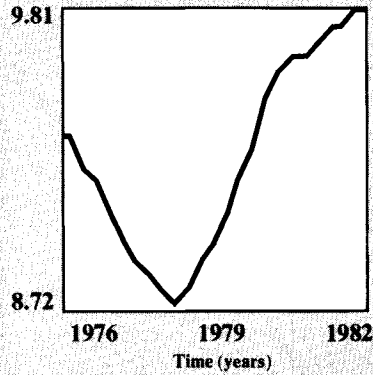
Consumption of productive workforce

(millions of 1976 dollars)



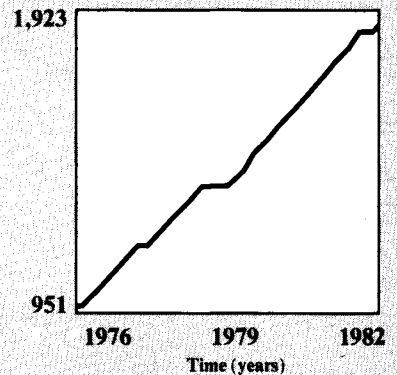
Labor productivity

(Ratio of surplus to consumption of productive workforce)



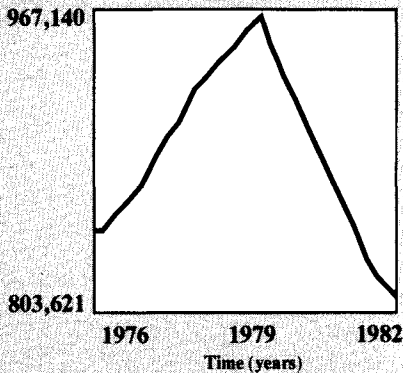
Consumption of productive workforce

(millions of 1976 dollars)



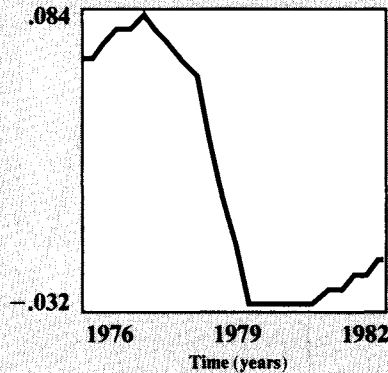
Raw materials and semi-finished goods inputs

(millions of 1976 dollars)



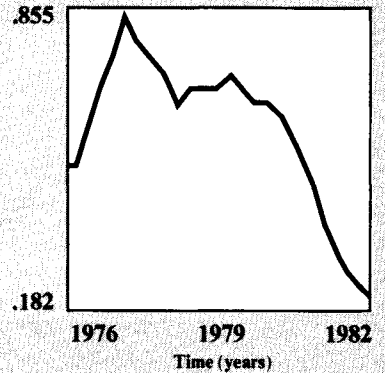
Free-energy ratio

(Ratio of surplus to consumption of productive workforce)



Free-energy ratio

(Ratio of surplus to consumption of productive workforce)

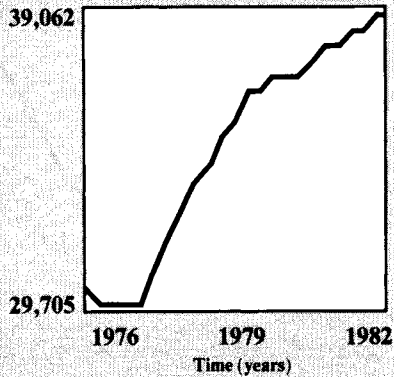


Growth industries (cont'd.)

Aerospace and other transportation equipment

Surplus

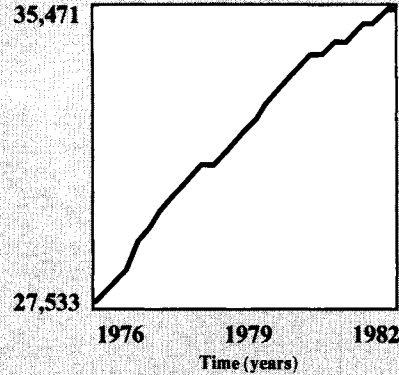
(millions of 1976 dollars)



Electric utilities

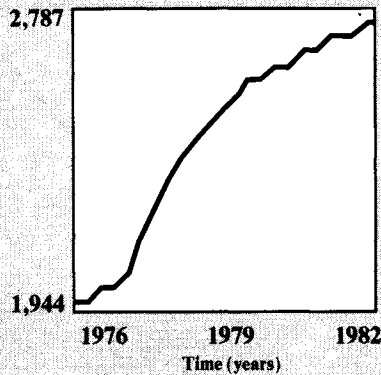
Surplus

(millions of 1976 dollars)



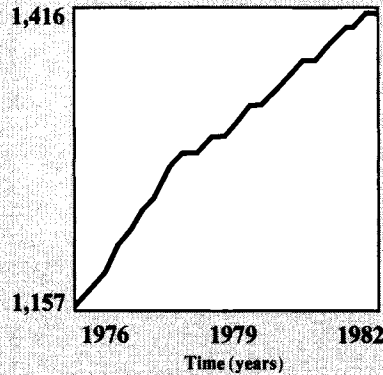
Consumption of productive workforce

(millions of 1976 dollars)

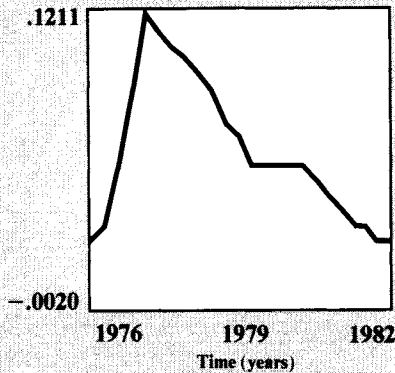


Consumption of productive workforce

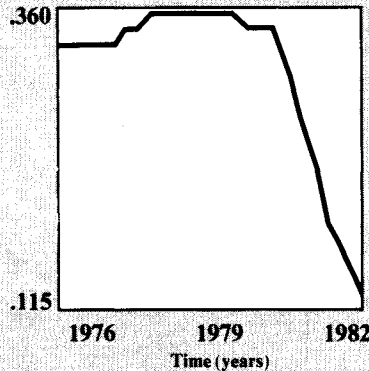
(millions of 1976 dollars)



Free-energy ratio



Free-energy ratio

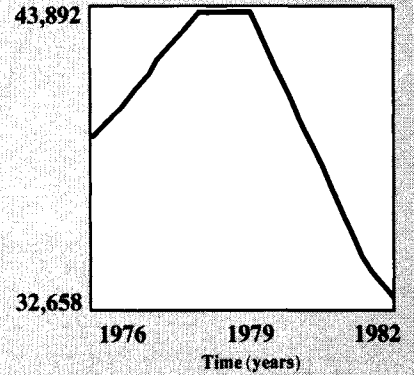


“Sunset” industries

Construction

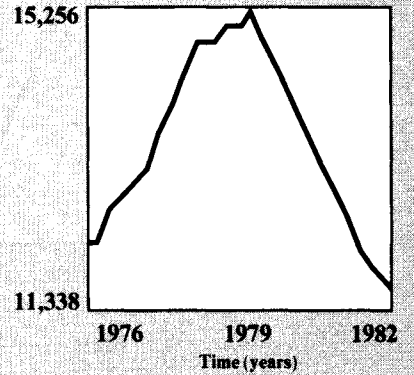
Surplus

(millions of 1976 dollars)

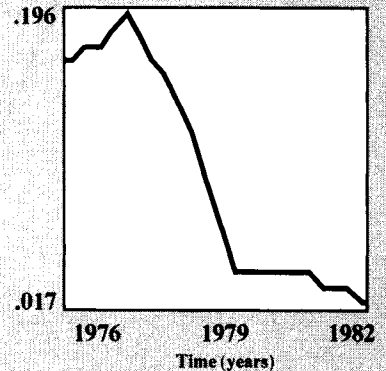


Consumption of productive workforce

(millions of 1976 dollars)



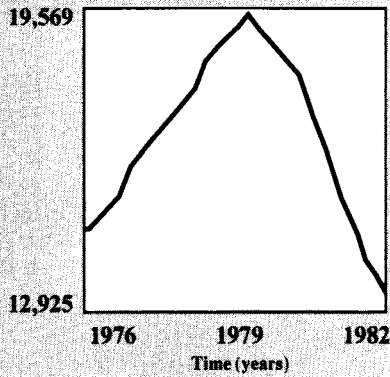
Free-energy ratio



Rubber

Surplus

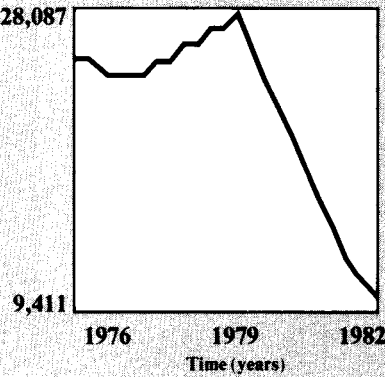
(millions of 1976 dollars)



Iron and steel

Surplus

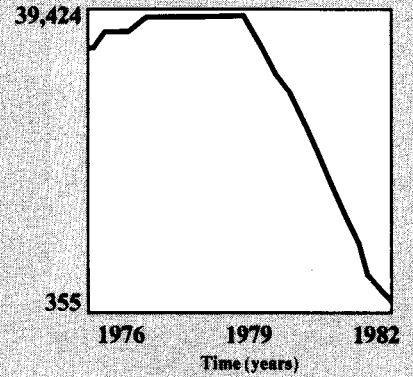
(millions of 1976 dollars)



Motor vehicles

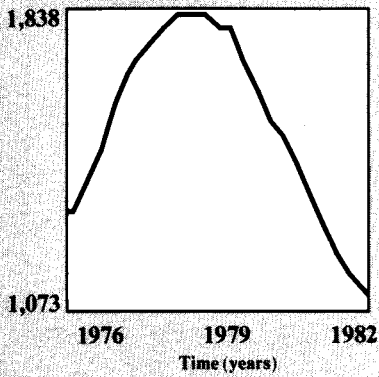
Surplus

(millions of 1976 dollars)



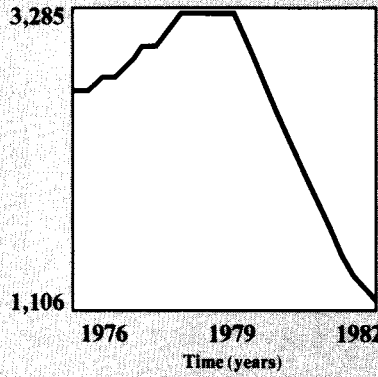
Consumption of productive workforce

(millions of 1976 dollars)



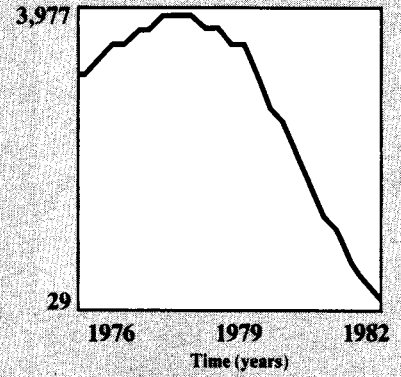
Consumption of productive workforce

(millions of 1976 dollars)

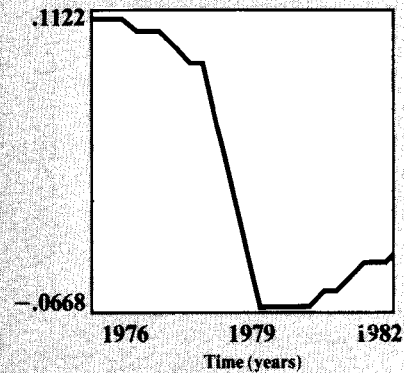


Consumption of productive workforce

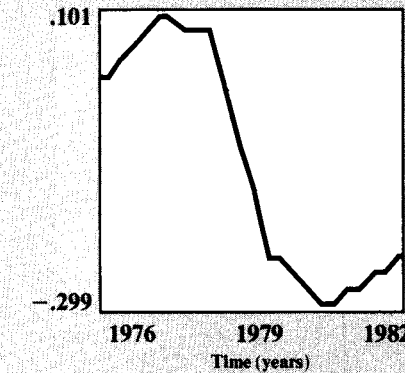
(millions of 1976 dollars)



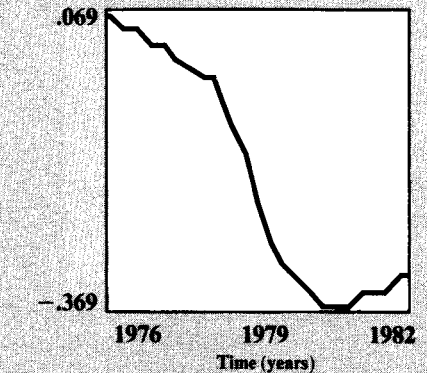
Free-energy ratio



Free-energy ratio



Free-energy ratio



Intermediate industries

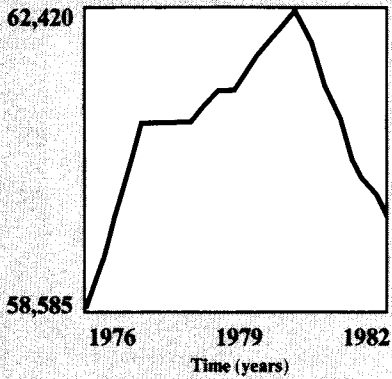
Food processing

Non-electrical machinery

Electrical machinery

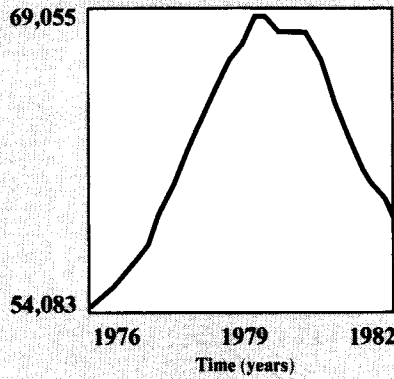
Surplus

(millions of 1976 dollars)



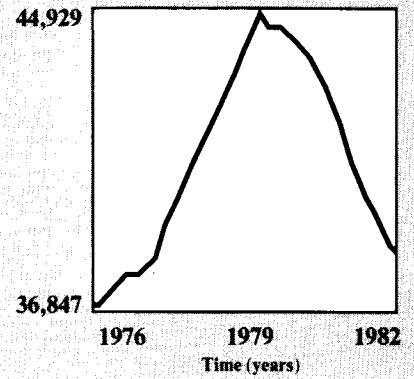
Surplus

(millions of 1976 dollars)



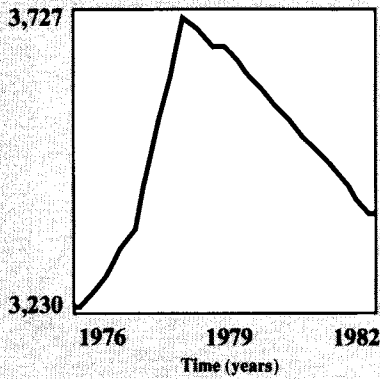
Surplus

(millions of 1976 dollars)



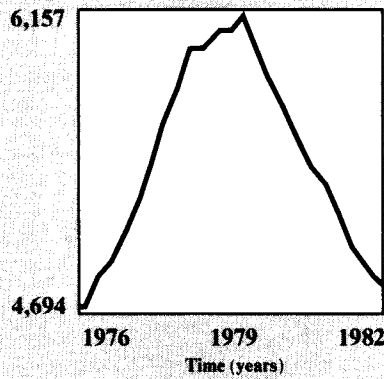
Consumption of productive workforce

(millions of 1976 dollars)



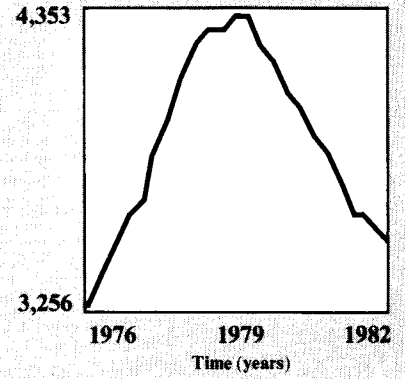
Consumption of productive workforce

(millions of 1976 dollars)



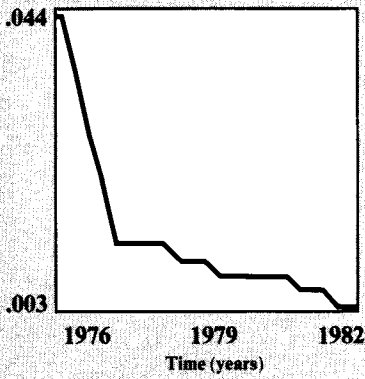
Consumption of productive workforce

(millions of 1976 dollars)



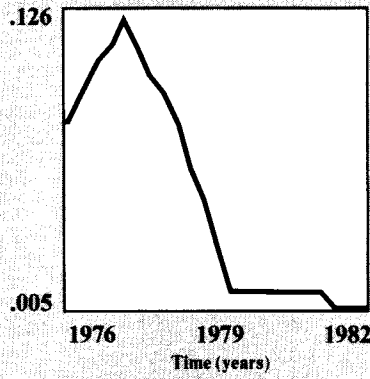
Free-energy ratio

.044



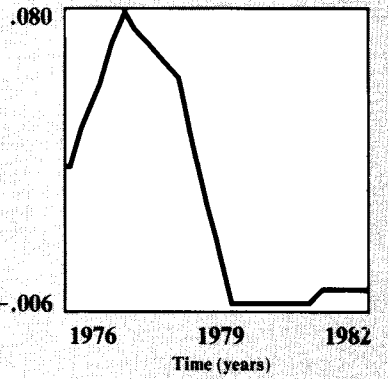
Free-energy ratio

.126



Free-energy ratio

.080



Why auto's cash flow has moved into the red

by Richard Freeman

Most commentators expressed shock when the auto industry announced collective losses of \$3 billion for the first nine months of 1980. Yet, with ballooning capital expenditures to meet environmental regulations, with Federal Reserve policies that have eroded the customer base of the industry, with oil prices that make gasoline at the pump a luxury, should it be a surprise that cash flow is leaking massively into red ink?

The industry is being contracted, not by normal market forces, but by a combination of policy decisions. America's second largest manufacturing sector, with \$140 billion in sales in 1979, has been slated for permanent contraction under the Carter-Volcker policy of undercutting the consumer goods sector, ostensibly to prop up capital goods. If continued, this means that housing and auto will be the two major items subtracted from the U.S. living standard.

EIR has projected that the auto industry's domestic sales level will be slashed from its 1978 peak of 9.3 million units to a permanent level of 7 million units or less. Two-fifths of the auto work force of 783,000 will become unemployed. A Carter administration official was emboldened to state in mid-September of this year: "There's no use trying to bail out ailing industries like auto. The auto industry is an industry of the past, and it will just have to face the fact."

Financial analysts often discount the question: "Well, Chrysler may go, but then we've only lost 8 to 9 percent of the U.S. auto market. Everyone else is shored up with cash." Yet General Motors and Ford have had negative cash flows for the past three years. They have adjusted their books to conceal the situation for the time being. Ultimately, however, they must cut back on working capital outlays by closing operations further, or resort to costly outside borrowing, or both. The consequences for feeder industries are indicated in Figure 1.

Once it is understood that under prevailing economic conditions, a negative cash flow will be a persistent feature of the Big Three through at least 1985, it can be appreciated that the 20 to 40 percent drops in auto output will not reverse themselves unless national policy is changed by the new administration.

The years of decline

At the start of the 1970s, the auto industry was regarded as "a perpetual cash machine." Now the industry is plagued with a galloping negative cash flow. Few stocks were more valued for their appreciation or hefty dividends than those of Ford and GM. In 1970, while stockholders' equity (stock values plus retained earnings) represented 50 to 55 percent of total capitalization for all manufacturing industry, for the relatively debt-free Ford and GM, the ratios stood at nearly 80 percent (see Figure 2).

The story of the auto sector's decline begins with the Energy Policy and Conservation Act (EPCA) of 1975, which hiked auto's overhead costs no less than 40 percent. The act required downsizing of cars, so-called safety standards including air bag installation (although small cars are inherently less safe than larger ones), catalytic converters to meet fuel emission standards, and a miles-per-gallon ratio of 27.5 by 1985.

Between 1977 and 1985, the auto industry will have to allocate \$90 billion in capital spending just to meet normal model changes and the costs imposed by this act. Not only is this an order of magnitude equal to the total costs of converting the U.S. economy to war production during World War II, but the costs are nondeferrable.

As expenditures for the EPCA began on a significant scale in 1977, the industry was particularly vulnerable to any downturns in its market. Then came the gasoline

price increases and the credit squeeze imposed by the Federal Reserve Board.

The earlier oil shock of October 1973-January 1974, combined with Arthur Burns's tight-credit regime in the fall of 1974, had buckled the auto industry. But it was able to rebound. The second conjuncture, from the winter of 1979 through the fall of 1980, produced more serious effects, with far less room for rebound (see Figure 3).

The recent cash flow picture

Though GM and Ford apparently showed substantial profits in 1979, the best gauge of the actual situation is the way auto's capital spending was financed.

In 1979, the consulting firm H. C. Wainwright calculated what the cost of added government regulations would mean to the auto industry if their profits each year between 1978 and 1985 were equal to their 1978 profits. Wainwright concluded that as a percentage of after-tax profit, General Motors will pay 68.5 percent; Ford, 113 percent; and Chrysler 497 percent.

To calculate how large this environmental/safety tack-on is for an industry already sustaining one of the highest capital spending levels in U.S. industry, *EIR* chose the following method:

First, calculate the 10-year historical trend of actual capital spending of the auto industry from 1968 through 1977. Then extend this trend to yield capital spending amounts—in current dollars—for 1978 and successive years. This builds in an expected inflation rate increase of 7 to 7.5 percent.

Next, compare the figures obtained by extending the trend line to actual spending by the Big Three auto-makers. For example, in 1978, the Big Three spent \$8.3 billion, whereas a simple extension of their past spending trends would have had them spending only \$5.2 billion. The difference approximates the amount paid out for government-mandated programs.

Three billion is larger than all but a handful of industries spend in one year for the entirety of their useful capital formation. During each year since 1978, the differential amount has remained at least \$3 billion.

It can be noted from these tables that in 1975, the year when auto sales crashed, the auto industry decreased its capital spending by \$4.1 billion in 1974 to \$3.5 billion. However, as emphasized above, the Big Three's capital spending cannot drop by an equal amount in the post-1979 period, because of the non-deferrability of a large part of their expenses.

Depreciation lag

GM, Ford, and Chrysler have been faced with huge capital spending outlays, but these outlays were not adequately provided for by their depreciation and amortization set-aside funds. The Big Three use 13- or 14-

Figure 1
Raw materials consumption by U.S. auto industry

Item	Auto's proportion of total U.S. consumption
Steel	20-25%
Malleable iron	50
Zinc	33
Aluminum	17
Copper	13
Synthetic rubber	60
Glass	20 or more

Source: Abraham Katz, Assistant Secretary of Commerce for International Economic Policy.

Figure 3
Auto industry sales in units and dollars

(billions of current dollars)

Year	American cars and truck units sold	U.S. motor vehicles and parts sales
1977 . . .	9,104,000	\$117.8
1978 . . .	9,308,000	\$132.2
1979 . . .	8,316,000	\$139.5
1980 . . .	7,500,000 (estimated)	

Source: *Automotive News* and *Ward's Automotive News*; U.S. Commerce Department, *Survey of Current Business*.

year straight-line depreciation schedules. Simply stated, a machine that cost \$100 million originally will cost twice that amount to replace in 14 years if only a 7 percent inflation rate obtains. The depreciation and amortization schedule simply doesn't cover this inflation discrepancy.

As a result, with soaring capital spending expenditures, and depreciation and amortization that fail to keep up, companies experience worsening cash flows, as can be seen in Figures 4, 5, and 6.

In this case, primary cash flow is defined as cash outflow minus cash inflow. Cash inflow represents profit plus depreciation and amortization. Cash outflow represents dividend payouts plus capital spending and retirement of long-term debt.

The soaring capital expenditure programs further augment cash outflow because, to finance capital spending, a company borrows more long-term debt, increasing its yearly debt retirement costs.

However, this is only the beginning of the cash-flow problem. Historically, GM and Ford have paid very high dividends. For years, this was no problem, given

Figure 2

Debt as percentage of total capital

	1968	1969	1970	1971	1972	1973	1974	1975	1976	1977	1978	1979
GM	2.8	3.0	2.8	5.4	6.3	5.7	6.5	8.5	6.9	6.8	5.3	4.4
Ford	6.5	5.5	7.7	12.6	14.3	13.2	19.1	19.4	16.6	13.9	10.6	10.9
Chrysler	20.2	21.4	26.8	26.5	24.1	26.0	27.2	30.7	27.1	29.8	28.9	34.9

Source: Annual reports of GM, Ford, and Chrysler.

Total capital consists of stock equity, net retained earnings and long-term debt.

Figure 4

General Motors' primary cash flow, 1969-79

(millions of current dollars)

	1969	1970	1971	1972	1973	1974	1975	1976	1977	1978	1979
Cash inflow	3366	2107	3725	3948	4381	2654	3339	5137	5717	6544	6080
Profit	1710	609	1935	2162	2398	950	1253	2902	3337	3508	2893
Depreciation and amortization	1656	1498	1790	1786	1983	1704	2086	2235	2380	3036	3187
Cash outflow	3146	3299	2627	3123	3651	3539	3343	4190	5710	6492	7060
Dividends	1240	983	985	1285	1514	986	701	1603	1958	1726	1533
Capital spending ...	1906	2282	1642	1838	2103	2253	2236	2307	3646	4565	5387
Debt payment	0	34	0	0	34	0	406	280	106	201	140
Net cash flow	+220	-1192	+1098	+825	+730	-885	-4	+947	-7	-52	-980
(cash inflow minus outflow)											

Source: General Motors yearly reports

their high earnings. But by the mid-1970s, Ford and GM set their sights on a dividend yield rate that would be a favorable multiple of AAA corporate bond yields, as can be seen in Figure 7. This became necessary to prevent the price of their stock from slipping badly. The high dividends intensified the cash-flow drain.

When on top of this, profits began to disappear—collectively the Big Three are expected to have negative profits of \$4 to \$5 billion in 1980—the cash flow picture became a disaster

Chrysler's predicament

For the Big Three as a whole, the signs of this disaster had begun to appear in 1977, when the first results of the mandated hike in capital spending emerged. For Chrysler, the situation was already panicky in 1977-78. The company's reaction was to get ready cash by selling off assets—often overseas plants that were newer and more profitable than its Detroit operations. These included the Airtemp division and holdings in Turkey, Argentina, Venezuela, Australia, and Western Europe.

In July 1979, Chrysler asked the U.S. government for \$1 billion in accelerated tax credits. In August, after the administration refused, Chrysler was shut out of the commercial paper market, and must now try to meet its \$1.3 billion short-term financing needs entirely through bank loans.

In the meantime, retained earnings have dissolved. At the start of 1978, Chrysler had \$1.9 billion in retained earnings; it began 1980 with only \$496 million. Its losses so far this year of \$1.6 billion mean that its retained earnings exceed negative \$1.1 billion, almost twice its paid-in equity of \$692 million. By any accounting standard, Chrysler is bankrupt.

In late 1979, the government loan guarantee granted the company forced it to divest more capacity and pledge to sell off its most profitable operation, its financing arm, Chrysler Financial Corporation. In return, it got only \$1.5 billion in loan guarantees; some constituted government guarantees of already outstanding Chrysler bank credit lines, and thus brought in no new capital. Wage concessions totaled \$340 million a year, and suppliers agreed not to increase their prices to

Chrysler for 1980. Chrysler is reportedly as much as five to six months behind in payments to some suppliers.

Resting on larger financial cushions—GM had a \$5 billion cash reserve last summer, of which it has used up \$3 billion—Ford and GM responded to the mandated cash drain by cooking their books and trying to scrape every bit of spare cash in their corporate systems back

into the main treasury.

According to *EIR's* sources, Ford and GM have been variously looting their subsidiaries, looting their non-consolidated subsidiaries, looting deferrable accrued expenses, looting their dealers, and attempting whatever one-shot gimmicks they can find to increase cash flow. The gimmicks include the following:

Figure 5
Ford's primary cash flow, 1969-79

(millions of current dollars)

	1969	1970	1971	1972	1973	1974	1975	1976	1977	1978	1979
Cash inflow	1349	1338	1479	1783	1854	1283	1245	2003	2787	2903	2773
Profit	546	515	656	870	906	361	227	983	1672	1589	1169
Depreciation and amortization	803	823	823	913	948	922	1018	1020	1115	1314	1604
Cash outflow	1283	1372	1313	1624	1923	1790	1313	1596	2224	3305	4117
Dividends	260	259	265	273	317	298	242	263	354	416	467
Capital spending ...	950	1037	1007	1142	1403	1414	911	1024	1744	2542	3412
Debt payment	73	76	41	209	203	78	160	309	121	250	238
Net cash flow (cash inflow minus cash outflow)	+66	-34	+166	+159	-69	-507	-68	+407	+563	-305	-1344

Source: Ford Motor Company yearly reports

Figure 6
Chrysler's primary cash flow, 1969-79

(millions of current dollars)

	1969	1970	1971	1972	1973	1974	1975	1976	1977	1978	1979
Cash inflow	436	341	442	589	627	280	78	730	512	147	-696
Profit	99	-7	83	220	255	-41	-207	328	125	-205	-1,097
Depreciation and amortization	337	348	359	379	372	321	285	402	387	352	401
Cash outflow	778	482	306	452	773	733	460	512	880	822	821
Dividends	94	29	30	47	69	79	0	18	54	65	34
Capital spending ...	645	416	250	335	629	467	383	424	722	671	749
Debt payment	39	37	26	70	75	187	77	70	104	49	338
Net cash flow (cash inflow minus cash outflow)	-342	-141	+136	+137	-146	-453	-382	+218	-368	-633	-1,517

Source: Chrysler Corporation yearly reports

Figure 7
Dividend performance yields: dividend yields over AAA bonds

	1968	'69	'70	'71	'72	'73	'74	'75	'76	'77
Chrysler .....	.52	.65	.30	.28	.37	.63	1.16	0.00	.19	.67
Ford .....	.71	.73	.65	.53	.53	.75	.86	.77	.59	.85
GM .....	.86	.80	.60	.57	.79	1.09	.92	.58	.95	1.23

Source: Martin Anderson, U.S. Dept. of Transportation, "Effects of Federal Regulation on the Financial Structure & Performance of the Domestic Motor Vehicle Manufacturers," 1978.

- GM is deferring paying worker pension fund pay-ins for its accrued pension fund account for all workers now on layoff. GM says that this is legal, and that in the future, it expects a “lower labor force content,” that is, fewer workers. GM is also shortening payments for delivery of its autos to dealers from a 20-day grace period to immediate payment on delivery of the autos from the factory to the auto dealership. This one-shot deal is giving GM an added cash flow of \$1 billion or more, according to one expert.

- Ford took increased dividends from its German division of \$250 million in the second quarter of this year. At the same time, Ford got its German subsidiary to make a \$250 million loan to Ford U.S.A. headquarters. This gave Ford \$500 million in increased cash reserves at the expense of the viability of its German operations. Ford also took a \$180 million one-time tax credit in 1979 from its United Kingdom plants, putting this tax credit where it pays lower tax rates. This also enhanced cash flows into Ford headquarters.

- Ford and GM are both using odd transfer pricing systems between the parent and its subsidiaries to get more cash into the head office.

- Ford and GM are also alleged to be using similar financial gimmicks with regard to their non-consolidated subsidiaries, whose assets and liabilities do not show up on Ford’s balance sheet, for example, but whose cash transfers can show up on the Ford U.S.A. balance sheet.

Despite these operations, Ford and GM will both have to go to the financial markets for large borrowings next year, including some of the borrowings they had to postpone this year. Ford in particular will be handicapped by the fact that its bond rating, which was AAA on all six categories of its bonded debt three years ago, was reduced to single A this year, and one category has sunk to the “junk bond” BBB rating.

Ford will experience at least a \$2 billion loss on North American car sales operations this year, and GM a lesser amount.

Under such circumstances, if a policy of tight credit continues, the auto industry will triage its operations simply to break even. Chrysler has already cut its total capacity in the United States to 1.5 million cars as part of its loan guarantee agreement. Ford is now talking about a 2.5 million breakeven level, and GM a 5 million breakeven level. This adds up to only 9 million, and it could go lower.

Yet the high level of capital outlays must continue until 1985. The double bind will mean that the Big Three have no spare cash to make the investments in new technology—such as robotics—that would actually modernize the U.S. auto industry and render it competitive.

Figure 8
Age of machine tools in use, 1976-78

	Under 10 years	10-19 years	20 years and over
Manufacturing industry			
in general	30.5%	35.2%	34.2%
Auto	23.8	31.4	44.8
Electrical machinery	33.0	41.7	25.3

Source: 1979/1980 *Economic Handbook of the Machine Tool Industry*.

The competition issue

Conventional wisdom has it that Japanese carmakers and the design and marketing executives of the American companies are to blame for the decline of the U.S. industry. This line of argument was most instructively contained in a June 6, 1980 report by the U.S. House of Representatives Ways and Means Subcommittee on Trade.

The findings of the subcommittee’s staff were that Detroit had become fat and complacent raking in profits year after year in the 1970s, and did not pay enough attention to market conditions. The American buying public wanted smaller cars, but U.S. management wouldn’t listen. So the Japanese and Germans filled the gap with their exports.

The grain of truth in this argument is usually lost even on those who make it. The American auto industry’s disadvantage vis-à-vis the Japanese auto industry arises from one basic cause—the lack of advanced U.S. technology, a technology which the current real economic causes of the collapse in the U.S. auto industry make it impossible to install on the scale required. For example, at a portion of Japan’s Nissan Zama plant, 96 percent of the bodyshop welding is done by computer-controlled machines. Nothing comparable exists in the United States. And auto industry equipment is obsolete even by standards obtaining throughout U.S. industry.

As Figure 8 shows, the auto industry has fewer machines under 10 years of age than the manufacturing industry average. And when compared to other U.S. industries, the technological obsolescence of the auto industry is brought into high relief: while one out of every four machine tools in the electrical industry is 20 years of age or older, the average in auto is *nearly one out of two*.

Schmidt punts on global economic leadership goals

by Susan Welsh

In a long-awaited speech to the West German parliament Nov. 24, Chancellor Helmut Schmidt consigned his country to "limited" nuclear energy development, while abdicating the responsibility for the high-technology industrial development of the Third World.

Schmidt's *Regierungserklärung* (Government Declaration) laid out the political program of his coalition government, which was re-elected in October. Although it reaffirmed some of the policies for which his government is best known—its close relationship to France, its desire for accord with the United States, and its insistence on fostering cooperation with the Soviet Union and Eastern Europe—the declaration amounted to a back-down compromise with the various factional currents which comprise the ruling coalition.

As such, it weakens Schmidt's credibility domestically while threatening to leave his ally President Giscard of France to try to unilaterally implement the policies of the erstwhile Bonn-Paris axis. The future of the European Monetary System as a mechanism for financing global economic development is placed in particular jeopardy.

Within the Federal Republic of Germany, Schmidt's supporters are disgusted, while his opponents are seizing the opportunity to try to topple the chancellor before the end of his four-year term. The London *Times* Nov. 24 remarked that "Herr Schmidt's prestige has begun to crumble slightly . . . the scene is set for a future breakup."

Retreat on nuclear energy development

The key issue domestically is nuclear power, an issue upon which Schmidt's political future and the country's

economic prospects both depend. Schmidt kept a low profile on the problem during the fall election campaign, fearful of losing the electoral support of the left wing of his Social Democratic Party. With the end of the campaign, progrowth industrial and labor leaders started to pressure the Bonn government to fulfill its pre-election promise that nuclear power, industrial investment and a vigorous export policy would be implemented. But these measures have not been forthcoming.

Schmidt stated that he will stress coal and "soft energy" while pursuing "limited development of nuclear energy. . . . One cannot simply force nuclear energy down people's throats." This is in sharp contrast with his own prior commitment to a nuclear-energy-based growth policy, as spelled out in May 1979 in a speech to the European Nuclear Conference:

It will come to a worldwide fight over shrinking energy supplies if the industrial countries do not develop nuclear energy. An unjustifiable situation would result, in which world-wide conflicts cannot be excluded, including conflicts between major powers, if the industrial countries give up the part which nuclear energy has to play in meeting their energy requirements.

No retreat from prosperity can solve our problems or those of anyone else. No industrial country, East or West, can afford to do without nuclear energy. A general ban on nuclear energy would not only endanger technological progress and many of the preconditions for development, but

also seriously jeopardize the possibilities for increasing development aid.

Schmidt concluded that speech with a call for an international conference on the safety of nuclear reactors, to include the East bloc nations and to "also work out the guidelines for training Third World nuclear power technicians."

But in his current declaration, Schmidt rejected this approach, which had formed the policy basis of the European Monetary System. Bowing to pressures from the strong environmentalist lobby in the Social Democratic Party (SPD), Schmidt stressed his government's commitment to anti-pollution legislation and the principle that "man can only exist in friendship with nature, not enmity with it." He went so far as to quote Polish science-fiction writer Stanislaw Lem's aphorism that "technology renders man superfluous," and warned scientists to take more care of the social consequences of their work.

Having abandoned West Germany's own high-technology development to the environmentalists and anti-science "Aquarians," Schmidt was left with no policy for the Third World except genocidal Malthusianism—"population control." His endorsement of the pick-and-shovel "development" program for former chancellor Willy Brandt's North-South Commission derives from this. Brandt is one of the leaders of the powerful left-wing faction in Schmidt's party.

Schmidt under fire

The reaction to the Government Declaration from industrialists who have supported Schmidt was swift and angry. The business daily *Handelsblatt* editorialized Nov. 25 that the Declaration contained plenty of "solidarity," but no solutions, only compromises. The government now resembles a rotten ship that will sink in the first storm, the paper said. The powerful Association of German Industry (BDI) issued a statement underlining that Schmidt was too soft on the issue of nuclear power.

German industrialists are convinced that without rapid development of nuclear energy, rising fuel costs will send the economy into a disastrous decline. "We need nuclear energy, and any delay will lead straight into an economic tailspin," one industrialist told *EIR*.

"Schmidt is afraid of his own party," said another. "His private commitment to nuclear energy will not be reasserted politically." A high-ranking representative of the German machine-building industry commented: "Schmidt is not making a good impression these days, he is not making a good impression at all."

Schmidt's fumbling leaves him trapped between the left wing of his own party, which is up in arms against

him, and developments in the opposition Christian Democratic Union (CDU) which threaten to bring down the government. Two top powerbrokers in the Social Democratic Party, Willy Brandt and Herbert Wehner, have come out openly attacking the chancellor for the first time since he came to power in 1974. Brandt and Wehner's close associates are accusing Schmidt of mismanaging relations with East Germany, and the SPD parliamentary fraction which Wehner controls has decided to set up its own official contacts to the GDR parliament, independent of the Schmidt government. They will renew the ties which Wehner established during his surprise visit to the GDR in 1973, reported *Der Spiegel* magazine Nov. 17.

The SPD left-environmentalists are demanding the deindustrialization of the Federal Republic. Top SPD "greenie" Erhard Eppler declared in an interview with *Stern* magazine this week that Schmidt is incapable of providing leadership in the 1980s.

The chairman of the SPD caucus in the industrial Ruhr region, Herr Haack, a high-ranking member of the SPD's Energy Commission, called this week for a "clean skies over the Ruhr" policy. He demanded an end to deliveries of electric power from the Ruhr to other areas of the country, and rejected the use of hard coal or nuclear energy because of "environmental dangers."

There is plenty of rage against these zero-growth "ayatollahs" in the Social Democratic Party, but without leadership from Schmidt, the opposition is unlikely to succeed. Schmidt's only remaining ally among the heads of SPD-governed states, Minister-President Holger Börner, is waging a vigorous fight for nuclear energy, the expansion of the Frankfurt airport, and overall industrial and infrastructural development (as *EIR* reported last week). But Börner's program was voted down in a state party conference, and huge environmentalist demonstrations are planned against the airport project.

In the city of Dortmund in the Ruhr, the trade unions and city council are planning a demonstration Nov. 28 in favor of expanding steel production and nuclear energy, despite the orders of the European Community that steel production must be sharply reduced under the program of Count Etienne Davignon. The strength of the popular sentiment which exists for Schmidt to mobilize is shown by the event at the Hoesch steel plant in Dortmund this week. Ruhr Labor Minister Fahrtnann, a Brandt-allied SPDer, visited the factory, which is slated for closing under the EC production quotas. The workers in the plant denounced their guest as an ally of Davignon's EC Commission, and had to be restrained to prevent them from throwing him bodily off the premises.

'We must not overestimate'

The following are excerpts from Chancellor Schmidt's Government Declaration, delivered to the federal parliament, the Bundestag, Nov. 24. The official translation is courtesy of the German Information Center.

Our friends and neighbors all over the world have welcomed the continuity of our policy. President Giscard d'Estaing said: "I attach the greatest value to the continuation of Franco-German cooperation that we have developed together with the federal chancellor over the past six years. This cooperation is an irreplaceable contribution to Europe's progress and stability." With this sentence, President Giscard has expressed the heartfelt feelings of millions of Germans and Frenchmen. . . .

With our foreign policy we aim to help safeguard world peace. We must do justice to our increased share of responsibility. But at the same time we must not overestimate the German role in world affairs, nor let others do so, so that expectations are not aroused which we cannot meet. . . .

Partnership with the United States of America remains the core of the Atlantic Alliance. It is a reflection of common vital interests.

This partnership is also based on common value concepts which were first developed by the French, formulated by the Founding Fathers of the United States over 200 years ago, and which have been the fiber of German democracy since 1848 at the latest. . . .

We strongly advocate the continuation of the SALT process. After my discussion with President-elect Reagan, I am pleased to be able to report to the Bundestag that he is thinking along the same lines. . . .

A thorough modernization program over the past ten years has increased the efficiency of the federal armed forces. We have well-trained armed forces with sophisticated equipment and a high degree of readiness, forces which are considered exemplary in NATO. A particularly large portion of our defense budget is earmarked for investment purposes because we have a conscripted army. Our defense expenditure over the last ten years has increased at an average of just under 3 percent a year in real terms. We have committed ourselves to try and maintain this rate of increase. We shall meet our commitment. . . .

Our relationship with the Soviet Union is marked by

the willingness for long-term cooperation. I recall the statements on the occasion of my meetings with General Secretary Brezhnev here in Bonn two years ago and in Moscow last summer. These also express the Soviet Union's interest in cooperation between the two German states.

Precisely, in difficult times the federal government does not want to allow the dialogue with the Soviet Union to be interrupted. However, we must also note "that as a result of the events in Afghanistan, détente has become more difficult and more uncertain." These are the words of the Franco-German declaration of Feb. 5, 1980. It also states "that détente would not survive another blow of the same kind. We therefore condemn, along with the overwhelming majority of the international community, the continuing armed intervention by the Soviet Union in Afghanistan and call for the unconditional and total withdrawal of foreign troops from Afghanistan." . . .

We shall render our contribution to the North-South dialogue for which the so-called Brandt Commission has made important suggestions.

In the past two years we have almost doubled our development assistance. In 1981 it is likely to increase at twice the rate of the overall budget. Of all donor countries we are at present, together with France, second only to the U.S.A. We intend in particular to promote the development of new sources of energy, to contribute to the development of a new independent food-supply base in the developing countries, and to keep our market open for products from the developing countries with which we transact one full quarter of our external trade.

I intend to take part in the talks of heads of government on North-South problems scheduled to take place in Mexico in June 1981. At that meeting I shall, above all, plead for two challenges to be met, which might otherwise lead to human and political disasters:

First: more than 4,000 million people live in the world today. Their number increases every year by 60 to 80 million, that is as many as the total number of people living in Germany. In 20 years the world population will be 6,000 million and in another 30 years perhaps 10,000 million. It is hard to imagine how all these people will be able to find sufficient food and accommodation, work and a life worthy of human dignity. This is a realization from which conclusions have to be drawn—today, and not only in ten or 20 years when it may be too late.

Second: the oil price explosion has pushed up the oil bills of developing countries. . . .

The aims of our policies are and remain to get away from the oil; to use energy more economically and rationally; to give priority to domestic coal; to proceed to a limited development of nuclear energy; to develop and introduce renewable energies. . . .

There exists broad international consensus about the need for peaceful use of nuclear energy. The federal government considers that the further development of nuclear energy is justifiable on safety grounds and—in the foreseeable future, i.e., for the next few decades—necessary on energy-policy grounds. It therefore supports the limited development of nuclear energy—naturally with priority being given to safety. . . .

The federal government refuses to pursue the development of nuclear energy “without ifs and buts.” One cannot simply force nuclear energy down people’s throats. Its development necessitates a broad democratic consensus. . . .

The federal government expects further contributions in terms of “soft energy,” if I may put it that way: from solar installations, from heat pumps, from new inventions altogether. We shall continue to encourage and promote such developments. . . .

CDU: ‘A liberal, center strategy’

Following the overwhelming electoral defeat of West Germany’s Christian Democratic Union-Christian Social Union (CDU-CSU) alliance in October’s elections, the liberal wing of the Union parties is carrying out a coup in the party leadership.

The liberals are out to destroy what remains of the conservative industrial base of the CDU, which in the 1950s and 1960s was spearheaded by Konrad Adenauer and has since lacked national leadership. Since the CDU-CSU went down to its worst electoral defeat in postwar history this fall under right-wing standard-bearer Franz-Josef Strauss, the liberals now demand a reassessment of party policies. Only in alliance with the liberal Free Democratic Party (FDP), they argue, will it be possible for the CDU-CSU to regain control of the government. The FDP received over 10 percent of the vote in the Bundestag elections, and is now in a coalition with Chancellor Schmidt’s Social Democratic Party. Since Schmidt does not have a majority in the parliament, a shift of alliances by the FDP would bring down his government before the end of its four-year term.

The FDP is known for its support of “Thatcherite” austerity economics as well as its radical environmentalism, its endorsement of drug decriminalization, and its enthusiasm for relaxing legislation on crime and terrorism.

Immediately after the electoral defeat of the Union parties, Franz-Josef Strauss declared that the FDP is the

natural coalition partner for the CDU-CSU. Since that time, CDU spokesmen have been debating how best to carry out a policy shift and collapse Schmidt’s government.

Excerpts follow from the article entitled “Fifteen Theses on the Policy and Strategy of the Union,” published in the latest issue of the CDU magazine Sonde. The authors are Wulf Schönbohm and Detlev Stronk.

The Union can attain a majority only if it successfully wages the battle for the voters of the political center, as a liberal, Christian social and conservative people’s party.

The political and strategic concept based on a single-minded conservative profile and on political confrontationism cannot attain a majority. A liberal, Christian social and conservative policy suits the political identity of the CDU. Only with this policy of the center can the Union attract votes from youth, from the new middle classes and from the borderline voters for the SPD and FDP. . . .

A clear strategy for the opposition must leave open more politically flexible options for regaining government power. This also necessitates a coalition with the FDP. . . .

A realistic détente policy does not mean supporting communism or giving way to détente illusions. Rather it means—as in Henry Kissinger’s strategy—that while taking into account the fundamental contradictions between East and West, one defines limited common interests and adjusts one’s own foreign policy behavior accordingly. . . . Here, for example, there is no principled disagreement with the FDP, so that the CDU should not hesitate to establish commonality where appropriate. . . .

The energy and environmental policies pursued up to now, particularly by the CDU-CSU Bundestag caucus, are among the reasons why the Union has lost so much support among the younger generation. In energy policy, some representatives of the Union have placed too much one-sided emphasis on the hasty construction of nuclear energy installations. They have therefore overlooked the fact that skepticism in the population about nuclear energy is very strong (35 percent are for nuclear energy, 20 percent oppose it, and 45 percent are skeptical) and the question asked is not whether or not there should be nuclear energy, but rather how much and how fast. . . .

The possibility of the CDU shifting from “the party of market economy” to a more decentralized and competition-oriented energy policy has been too little investigated and too little demanded. . . . Otherwise, intensive pilot projects should be conducted to determine to what extent the productive force of German agriculture could be drawn into energy production more than ever before (biomass, fuel from agricultural products).

Moscow nods to Polish dissidents

A Soviet faction is boosting the Polish Solidarity group and its program, Rachel Douglas reports.

Despite a chorus of squawks from Prague, Berlin and other quarters in Eastern Europe concerning the pernicious influence of "antisocialist" forces in and around the entourage of Polish trade union leader Lech Walesa and his union confederation "Solidarity," despite the assertion by a Czechoslovak newspaper that legalization of Solidarity was nothing less than the establishment of a home base for "legal opposition" to the socialist state, despite precipitously collapsing economic conditions that drain the unions' worker constituencies of their previous enthusiasm, and despite complaints from Polish government officials that Solidarity presents "excessive demands"—the authorities in Warsaw have not lifted a finger against Poland's new trade unions.

Solidarity is sailing smoothly because it has patrons not only in Warsaw but in Moscow.

Of course, the Solidarity organization is known to its friends and to its enemies for the money it gets from London and the advice it gets from Polish and West European Jesuits. Nor is Moscow ignorant of Solidarity's kinship with the very "solidarists" whose Russian-nationality adherents are regularly denounced as "clumps of emigré rabble," as General Seymon Tsvigun of the KGB, the Soviet intelligence agency, put it last March.

But a solidarist organization in Poland, legitimized to the degree of possessing independent bargaining power for use at any time, has its uses to the Polish faction that overthrew the country's leader Gierek last summer and to the Moscow patrons of that faction. The Russian faction that had no commitment to Gierek and disliked his ties to the continental West European heads of state, ties which Paris and Bonn considered vital to the advancement of Soviet bloc relations with the West, is an anglophile tendency lodged in many niches of the Soviet policy-making apparatus.

Not least of these is the KGB itself.

With legal registration by Poland's Supreme Court

on Nov. 10 on the union's terms, which eliminate any declaration of allegiance to the ruling communist party, Solidarity has been incorporated into the political structure of Poland.

On Nov. 14, Walesa had an audience with party First Secretary Stanislaw Kania, after which Kania called Solidarity "an important element of the socialist democracy in our country." Said Walesa, "Mr. Kania is a man you can talk to."

Evidently they intend to keep talking, and Kania has the nod from Moscow to do so. On Oct. 30, as Solidarity prepared to launch nationwide strikes if Warsaw did not dispatch government ministers to the union's headquarters in the coast city of Gdansk for discussion of the legalization issue, Kania and Prime Minister Jozef Pinkowski flew to Moscow and returned with clearance to negotiate as they saw fit.

On the rampage

Legalization did not settle down Solidarity. In the ensuing week, the union forced the resignation of a provincial official in southern Poland, the sixteenth of Poland's 49 provincial governors to lose his job during the crisis and the first to go on demand from Solidarity.

This happened in Czestochowa, where Solidarity officials called a "strike alert" to enforce their demand that Governor Miroslaw Wierzbicki step down. He did so, but the clash reflects continuing disputes within the ruling Polish United Workers Party.

The Czestochowa governor, according to French sources, was an associate of ousted party chief from Silesia Zdzislaw Grudzien, who in turn was close to Gierek. Although Gierek was deposed Sept. 5 and his closest colleagues have been purged from the highest echelons of power in Poland, it is believed that they retain some strength in the party Central Committee. Tadeusz Fiszbach, a Gierek opponent who heads the party in Gdansk, called recently for "purifying" the

committee of "retrograde members."

A Nov. 9 Polish Press Agency release for Polish sailors at sea indirectly suggested that remaining support for Gierek is more widespread. PPA editor K. Brucinski quoted an Oct. 15 letter from a reader, a party member, protesting that to oust Gierek (the writer was away at sea) would be to dismiss "the first Polish statesman of whom we did not need to be ashamed." The letter cited Gierek's excellent relations with Chancellor Schmidt of West Germany and French President Giscard d'Estaing as examples of Gierek's accomplishments in a decade of power.

"Down with the little party dogs who are trying to get at Gierek," concluded the writer, specifying that Politburo member Tadeusz Grabski, in particular, was "a dog." Brucinski dutifully refuted this sentiment, but that such a letter would be printed at all means the views it expressed are not the views of one isolated sea captain.

If the Moscow friends of Gierek's enemies keep their grip on policy, however, the Gierek machine men, the men who attempted to carry out a comprehensive industrialization program for Poland in the 1970s, will be picked off one by one, province by province.

Economy leaps to its death

In the meantime, the ruling coalition of former security chief Kania and economic decentralization specialist Stefan Olszowski is preparing for the presentation next month of "a broad economic reform." In this document, the true stripes of the Polish experiment will be visible: the shared commitment of Olszowski, of the Solidarity trade unions and their advisers, and of the radical agitators from the Workers Defense Committee (KOR) who catalyzed the politicization of strikes over price rises last summer.

Their common espoused goal is "small is beautiful" economics, a reversion of Polish industry to the condition of Poland's agriculture—fragmented and run by small local interests.

By the time Olszowski finishes putting his economic drafts into active policy form, the Polish economy may have reached a state of disintegration beyond what even they imagine. Each day the minister of another industry announces serious shortfalls in production.

As Polish authorities probed possible sources of new credit abroad, Poland's minister of mining said that production of coal, a major export, would be 11 or 12 million tons short of the 1980 target of 207 million tons. The brunt of the shortfall will be borne by coal exports, which will be 10 million tons under their planned level, depriving Poland of badly needed foreign exchange. Food exports have ground to a halt.

This week the Polish trade union Solidarity began a phased escalation of strikes against the national railway network with a two-hour walkout in Gdansk, Warsaw and Wroclaw.

According to the *London Times* of Nov. 24, no coal shipments have been moved from Gdansk in the past couple of weeks, meaning the projected shutdown of its exports has occurred and domestic deliveries are also curtailed.

In retaliation, reports the same source, desperate peasants deprived of coal deliveries are withholding their produce from the market and underplanting next year's crops to no more than what they themselves will consume.

Adding to economic pressures, State Department spokesman John Trattner made the announcement on Nov. 21 that the Carter administration has decided to defer its decision on a Polish government request for a \$3 billion aid package. This means, because of the magnitude of the loan involved, that the matter will not be taken up until after Jan. 20, when President-elect Ronald Reagan takes over the executive branch of government.

In a Nov. 25 editorial, the *Washington Post* outlined the approach the Reagan Administration should take. Poland should receive no aid until Warsaw has adopted a reform to "depoliticize, debureaucratize and decentralize economic decision-making to allow a greater hand to market forces. . . .

The following day, the *Christian Science Monitor* seconded this "aid with conditions attached" approach, recommending that "some sort of consortium arrangement will need to be worked out" to oversee and monitor Polish credit-worthiness. And it will have to attach "the kind of changes often required by the International Monetary Fund in granting aid," the *Monitor* emphasized.

The prime minister told party activists in Lodz Nov. 11 that "it is indispensable to develop the export capacity of our economy," but his ministers are saying that it is impossible to do that if "social needs" and Solidarity demands are also met.

On November 19, the Polish government announced that industrial investment would be reduced by 15 percent in 1981, scrapping 60 out of 250 major construction projects either already under construction or on the drawing board. Among them are two electric power stations and other plants officially termed "necessary." Polish officials admit that unemployment will result from the industrial slowdown.

Poland is disintegrating step by step. Whether the outside controls over that decline hold firm, including the controls manned in Moscow, is another question.

Turn in Japan-Soviet relations

Richard Katz on how the Reagan victory may shape Japanese policy toward the U.S.S.R.

The change in American Presidents sets the stage for a turning point in Japan-Soviet relations with potential strategic significance for the entire Asian region. Under Carter, Japan-Soviet relations hit their sourest level in years. One factor was Japan's solitary adherence to Carter's post-Afghanistan economic sanctions. Far more important in the long run, beginning in early 1979 Japan fully participated in the formation of a de facto U.S.-China-Japan alliance against the U.S.S.R., and began to rearm in that context.

It remains to be seen whether the advent of President Reagan leads to an easing of Japan-Soviet tensions, or simply signals a shift in the kind of tensions. The latter would tend to occur if the Reagan administration abandons the centrality of the "China card" in U.S. Asia strategy, but combines a reduced China card tactic with a strong push for a rearmed Japan playing a NATO-type role in the Pacific, and if Japan accepts that role.

So far during the interregnum two clear tendencies have emerged. On the economic front, Japan is steadily abandoning its economic sanctions. By the Jan. 20 inaugural, the sanctions are likely to have totally disappeared. On the diplomatic-military front, tensions continue as Japan accelerates its rearmament and cooperation with NATO. This trend is being denounced virtually every day in the Soviet press.

In classic Japanese fashion, the abandonment of the sanctions against the Soviet Union came not with a loud proclamation, but in quiet incremental steps virtually unnoticed in the Western press. For weeks there had been small trade deals, an October series of trips to Moscow by the presidents of Japan's giant trading companies, and other such moves. Then, on Nov. 14, the government leaked to the Japanese press that the Export-Import Bank would resume suppliers' credits on project deals with the Soviet Union, up to a limit of \$100 million per deal. Observers expect that even that ceiling will be lifted shortly. During October, the Soviets offered Japan a package of projects totaling \$2-\$3 billion, warning that they would take their offers to Europe should Japan turn them down as it had earlier in the year. When one Japanese banker was asked whether Japan would accept the deals, he told *EIR*, "Of course, of course. The sanc-

tions are over."

For months Japanese businessmen had been urging the government to lift the sanctions. Because Japan, alone among U.S. allies, adhered to Carter's diktat, Japanese business lost an estimated \$4-\$5 billion in trade deals to France and West Germany. Despite this pressure, Foreign Minister Masayoshi Ito pledged continued Japanese support during his September visit to Washington, going so far as to criticize France and West Germany during a joint press conference with Secretary of State Edmund Muskie.

The election of Ronald Reagan changed the situation. Both before and after the election Reagan and his advisers were sounded out during lengthy visits to the United States by Susumu Nikkaido, a top official of the ruling Liberal-Democratic Party. Susumu, one of the few top Japanese politicians to forecast Reagan's sweeping victory, no doubt explored Reagan staffers' attitude toward a resumption of Japanese trade with the Soviet Union and got the impression that it would not cause big problems. The Kyodo news dispatch reporting the resumption of Export-Import Bank credits quotes government sources as saying that the smoothness of easing of the sanctions "depends on the policy to be taken toward the Soviet Union by the new U.S. regime," and reports that further sounding out will occur.

A vigorous resumption of Japan-Soviet project cooperation, yielding Japan new sources of oil, coal, natural gas, lumber and export markets, is now likely.

On the diplomatic-military front, the picture is neither so advantageous nor so clearcut. The election of Reagan sparked the revival of debate in Japan on its proper security role. One faction in the debate is headquartered in the new cabinet of Zenko Suzuki and includes the current leadership of the Defense Agency as well as sections of business. This group proposes to accelerate the trend begun by the late Prime Minister Masayoshi Ohira of rearming Japan to the level of a regional military power and of participating in a *triangular* alliance with China and the U.S.

The other faction is represented in parts of the ruling LDP, sections of the Foreign and Trade Ministries, and in portions of the business community. This group wants

to revert to something like the traditional policy known as "omnidirectional diplomacy": limiting Japan's military buildup to self-defense rather than regional deployment. It also means maintaining close *bilateral* security arrangements with the U.S. and general adherence to the Western camp, but maintaining friendly ties to the Soviet Union as well as China and other countries, and avoiding participation in diplomatic-military blocs aimed directly against the U.S.S.R. The latter group includes many of the business leaders involved in promoting long-term economic cooperation with the Soviet Union, such as Toshio Doko, former chief of Japan's top business federation, Keidanren.

The Suzuki administration has clearly continued the momentum of increasing Japan's arms spending. While the rest of the budget was limited to only a 7.5 percent increase, defense was allotted a 9.7 percent increase this year. Political obstacles in Japan prevented the arms buildup from being as rapid as desired by certain strategists in the U.S. Thus, Suzuki reaffirmed that the defense budget would not go beyond the limit set in 1976 of 1 percent of Gross National Product (GNP).

More important than the military spending per se is Japan's taking on the role of a strategically deployed quasi member of NATO. For the first time ever, Japan attended NATO deliberations held in Brussels Nov. 20-21 as an "observer with a voice." Its delegation of parliamentarians was led by former Defense Agency director Asao Mihara and Michita Sakata. Sakata is a leader of the Japanese followers of the limited nuclear war doctrine of former U.S. Secretary of Defense James Schlesinger. Another former Defense chief, Shin Kanemaru, led Japan's delegation to a meeting in Paris Nov. 19-21 on "Moscow's war for resources," attended by delegations from the NATO countries, Japan, South Africa and Brazil.

Within Japan itself, Foreign Minister Ito is leading a campaign over the "threat from the North," including a doubling of the budget to carry on an internal propaganda campaign about the "Northern Islands" issue. This refers to Japan's claim to four islands in the Kurile chain taken by the Soviet Union after World War II.

The new Japanese deployment includes exchanging military delegations with China and supplying China with defense-applicable electronics equipment; giving aid to the Khmer Rouge of Pol Pot; disproportionately increasing economic aid to nations designated as key allies of the Brzezinski Indian Ocean strategy such as Pakistan, Kenya, Oman and Somalia; and accepting responsibility for sea lane protection in East Asia.

Career bureaucrats in the foreign ministry as well as businessmen have given leaks to the press criticizing the behavior of Ito and the Defense Agency. Their criticisms have so far produced no visible effect on policy.

The U.S.S.R. has responded to the debate in Japan with what might be called a "carrot and sledgehammer" approach. On the one hand, the Soviets are intensifying their offers of economic cooperation. The Soviet press picked up on the Nov. 14 decision to ease the sanctions as evidence of "realistic" forces in Japan pressuring the government.

A slow, steady rise in Japan's defense spending of the traditional self-defense type would most likely be regarded in Moscow as inevitable, and set off few alarm bells. As Japan itself admits, the U.S.S.R. could destroy Japan in about four minutes. One *Pravda* commentator pointed out Oct. 17 that Japan's rearmament is seen as dangerous primarily because it occurs in the context of the U.S. "limited nuclear warfare" doctrine and of the "China card." The latter type of NATOized arms buildup would mean Japan-Soviet tensions will increase, economic cooperation notwithstanding.

As the Soviets see it

The following is excerpted from an Oct. 17 Pravda commentary by Vitaly Kornilov:

It has been announced in Tokyo that "Japan's possession of nuclear weapons" would not contradict the Japanese Constitution. . . . Tokyo's line is obviously directly linked to Washington's turnabout in disrupting détente. surely there could be no nuclear ambitions in Japan were it not for the Washington doctrine of "limited nuclear war," or the provocative incitements of the Peking hegemonists.

The following is excerpted from a speech by Soviet Merchant Marine Timofey Guzhenko to a Japan-Soviet conference held in Moscow Nov. 18.

There has been a change in Soviet-Japanese relations, and in no way for the better. . . . It is not the Soviet Union, but it is official Japanese circles, which had made steps at limiting contacts between the two countries, at impeding the development of mutually beneficial trade and economic contacts. . . . Isn't the myth about a "Soviet threat" used in Japan as a smokescreen for concealing the trend towards building up Japan's military capability, which is done not without prodding from Washington and Peking? These steps are being made as Japan is joining ever more closely in the policy pursued by Washington and Peking which are steering a course toward wrecking détente and working up international tensions.

The new initiatives under way to 'Iranize' the Mexican nation

by Timothy Rush

The preconditions for a full-scale Iran-style explosion in Mexico are being prepared on two parallel tracks—oil development policy and labor. And the whole project is now attempting to gain additional leverage by playing on widespread Mexican fears of what a Reagan administration may mean.

The irony of the oil development debate is that the "Iranizers" are in the forefront of insisting that Mexico must cut back its oil development "in order to avoid the fate of Iran." They take their cue from Henry Kissinger's pronouncement just after the Khomeini takeover in Iran that Iran fell because it "modernized too fast."

Advice is now raining down on Mexico from U.S. think-tank quarters to "hold back on oil." Illustrating the propaganda in this campaign, a UPI wire suddenly appeared Nov. 18 on the pages of the *Journal of Commerce* reporting—falsely—that a consensus at the Columbia University Arden House meeting on Mexico three weeks before had backed the warning that "if oil production is not brought under control it could trigger another social revolution like the one that shook Mexico in 1910."

The Iranizers well known the opposite is the case: continued oil expansion, with foreign earnings *capitalized in major infrastructure and industrialization projects*, and hence spent in an anti-inflationary manner, is Mexico's unique road out of the breeding conditions for Iranization.

The Iranizers well know that the opposite is the case: five months to undermine the cohesion of Mexico's labor movement. This is an effort to create Iran "via Poland," and has been advertised as such in such knowledgeable publications as the London *Latin America Political Report*, often linked to British intelligence circles.

In a mid-October feature, the *LAPR* wondered aloud in a headline, "Is the Current University Workers' Movement 'López Portillo's Gdansk'?" It offered the hope that it would be—that the "official" union structure based on the long tenure of Fidel Velázquez at the head of the Mexican Workers Confederation could be brought

down through Mexican Communist Party-led dissident agitation at the universities.

As soon as the government defused the university workers situation, an even larger labor upheaval came to the fore. Dissidents in the 600,000-man national public school teachers union, the SNTE, combined several regional actions into a series of marches on the nation's capital during the first weeks of November. *EIR* investigation shows close interface between the dissident factions and the Jesuit "Theology of Liberation" movement in such states as Morelos and Chiapas.

The influential left-Jesuit weekly *Proceso*, at the end of an analysis entitled "Iran and Mexico, Histories which Appear to Converge," rejoiced that now "the sound of demonstrations has joined the noise of automobiles" in the capital.

What most caught the attention of observers was the public support given to the "leftist" dissidents by leading figures of the oligarchical "right," notably cronies of the mayor of Mexico City, Carlos Hank González.

The fundamentalist strategy

In our July 1, 1980 cover story, "Aztec Fundamentalism: Mexico's Jesuit Ayatollahs," the *EIR* broke journalistic ground with a detailed X-ray of the ideology, troops, and lines of command being assembled by an international task force dedicated to recreating the New Dark Ages chaos of Iran in Mexico.

We identified the generals of this war within leading Anglo-American policy institutions, and highlighted the role of Jesuits in both "left" and "right" aspects of the destabilization scenario. Contributing editor Lyndon H. LaRouche coined the term "Aztec fundamentalism" to describe the blind spot among Mexico's nation-builder elites: toleration of the idea that Mexico's true roots are to be found in bestial Aztec cultism, including human sacrifice and cannibalism, rather than in the legacy of European and American humanism.

Matching stride with the continued successful progress of the government's industrialization drive, the

Iranization project has moved ahead rapidly in the succeeding five months.

The lead story in the December 1980 issue of the *National Geographic* magazine sounds the charge. Entitled simply "The Aztecs," the lavishly illustrated article pays homage to that death-worshipping culture. Their human sacrifice and cannibalism were "surrealistically humane"; modern Mexican Indian and peasant belief is "dumbfoundingly" similar to the ancient ways.

Behind such popularizations lies a full-scale mobilization of "Indianist" networks united around a concept they call "ethnocide": that modernization of backward, immiserated Indian communities is a crime.

At a major inter-American conference of "Indigenists" in Mérida, Mexico, last week, and at the Fourth Bertrand Russell Tribunal held in Rotterdam this week, the cry was raised that virtual "Indian nations" must be created to destroy the development capabilities of modern nation-states in Latin America.

In the thick of this indigenist agitation are the people who helped to contrive the pseudo-Christian "Theology of Liberation" over a decade ago. Prominent among them is François Houtart, a Jesuit theologian from the University of Louvain, who trained Colombia's priest-insurgent, Camilo Torres, and shows up on the Board of Advisers of the Russell Tribunal.

Growing labor unrest

Over the past month and a half, dissident forces inside Mexico's National Teacher's Union (SNTE), have launched an offensive to overthrow the union's current government-allied leadership.

In an interview with the Mexican daily *Excélsior* Nov. 14, Manuel Sánchez Vite, former head of the SNTE and key controller of the dissident movement, stated that the dissident teachers were not going to rest until Carlos Jongitud Barrios, a current SNTE leader, is overthrown. Jongitud, he argued, is just like the shah of Iran and will suffer the same fate.

Like in Iran, the ultimate target of this destabilization scenario is Mexico's rapid rate of modernization and economic development. The dissident movement is only the cutting edge of the scenario.

Mexico's 600,000-member teachers' union, the largest in Latin America, plays a crucial interface role between the most backward layers of peasantry in the countryside and the government. The quality and the orientation of the education provided by the rural teachers is a major factor in whether this peasantry becomes upgraded for more productive, technologically advanced work in both rural and urban areas—or remains as a pool of recruits for Jacobin-style upsurges.

The current dissident teachers' movement came to the surface a year ago, when a group of teachers from the oil-rich southern state of Chiapas were manipulated by Jesuit, anti-government forces into a confrontation with the government. It escalated early in November when thousands of teachers from Chiapas and the state of Morelos led a protest march to Mexico City.

The demonstration was widely hailed by an array of left organizations and press as the first expression of a "Polish" movement against the Mexican government's "absolute control of the trade unions," as the ultraliberal *Unomas Uno* newspaper put it Nov. 4.

The march triggered a series of wildcat strikes and violent incidents in major educational institutions throughout Mexico.

The dissidents' march was met by a massive counter-mobilization by the SNTE official leadership which reached a peak Nov. 15 with a demonstration of several hundred thousand in Mexico City. This show of unity by the official SNTE did not resolve the conflict, however.

The potential for an Iran-style social upsurge opened by the teachers is not a sociological phenomenon, but the result of a long-awaited plan currently being implemented from several levels including from inside the Mexican government itself.

In the case of the dissident teachers, there are three interrelated layers of operatives. First, the array of left groups led by the Jesuit Theology of Liberation; its right-wing counterpart led by the already mentioned Sánchez Vite; and third, the Minister of Education, Fernando Solana, who has manipulated the teachers' unrest by delaying their pay checks, thus providing the dissidents with a legitimate support-gathering issue.

The role of the left-Jesuit groups in the movement has been openly denounced in the past weeks by both the SNTE official leadership and Mexico's Masons.

On Nov. 10, the SNTE charged in a full page ad published in Mexico City's major newspapers that the Mexican Communist Party, the so-called "Left Coalition," the Mexican Socialist Workers Party, and the "political clergy" were behind the teachers' unrest. Two days later, the SNTE was echoed by a group of Masons from Cuernavaca who called on the Interior Ministry to open an investigation on the Roman Catholic Diocese of Morelos, run by Bishop Sergio Méndez Arceo. The Masons stated that they have evidence that Méndez Arceo is funding the dissidents in that state. Méndez Arceo is a well known terrorist controller who is a leading sponsor of the "Christian-Marxist" dialogue.

Reflecting this top-down coordination between the "left" and "right" in this destabilization, the most notorious "anti-communist" publications in Mexico are publishing articles calling for the support of the dissident teachers' movement. At the top of the list is *Impacto* magazine, otherwise an advocate of the Chilean police-

state economic model touted by Milton Friedman's Mont Pelerin Society.

Other influential figures are supporting the dissidents from the "right" side of the destabilization. The mayor of Mexico City, Carlos Hank González, an ally of the Mexican drug-running oligarchy, has privately expressed his support for the dissidents. Sánchez Vite is known to be close to the mayor as well.

'Indigenist' demands

A top-level group of anthropologists, environmentalists, terrorist controllers and radical priests gathered this week in Rotterdam, Holland, for the "Fourth Russell Tribunal," where they will judge cases of alleged extermination of Indian communities in the United States and Latin America. According to the Mexican radical mouthpiece, *Uno Mas Uno*, the Tribunal will examine approximately 30 cases of "ethnocide," three of them supposedly perpetrated against Mexican Indian groups.

The Tribunal has become a rallying point for those Mexican radical circles the *EIR* has identified as a key component in a script to ignite an Iran-style rampage against modernization using impoverished and brutalized Indian populations as their cannon fodder.

In a preparatory conference on what is called "indigenism" in Merida, Mexico, last week, Guillermo Bonfil Batalla, a guru of Mexican anthropologist networks and a member of the Russell Tribunal's jury, issued the call to battle.

Bonfil called for separate states in Mexico's federal system for each different ethnic group. He also clearly identified on what grounds he and his cothinkers charge human-rights violations of the Indian communities: "the advance of [modern] cattle-raising in Indian lands, of agroindustries and of oil development."

Huasteca: a case study

Sources close to Bonfil state that one of the cases of alleged human-rights violations he will take with him to Rotterdam concerns the Indians of the Huasteca region in Hidalgo state, north and east of Mexico City. That area is the site of a showcase oil development project called Chicontepec, which will feature extensive cattle-raising, irrigation and agroindustrial projects as an integral part of the oil exploitation efforts.

Working closely with Bonfil in preparing "Indian versus oil" clashes in the Huasteca region are two veterans of previous efforts to hobble the oil development, Heberto Castillo and José Alvarez Icaza.

Castillo, founder of the radical-environmentalist Mexican Workers Party, is a celebrity of the interna-

tional zero-growth environmentalist circuit and has received particularly favorable coverage in the *New York Times*. Alvarez Icaza, head of a Jesuit "information center" specializing in human rights, CENCOS, will attend the Russell Tribunal in Rotterdam to give a "first-hand report" on the Hidalgo case. According to well-informed sources, he is traveling with all expenses paid by the Jesuit University of Louvain in Belgium.

The Russell Tribunal

Now that these radical networks have laid the groundwork for an Iran-style rampage against the modernization efforts, the Russell Tribunal is prepared to provide them with a higher level of international capabilities and experience.

In the case of Iran, the same Tribunal took advantage of the regime's repressive acts to build up international investigations whose only purpose was to provide credibility for Khomeini.

One of these veterans of the Iranian destabilization, Noam Chomsky, professor of linguistics in the Massachusetts Institute of Technology and a key controller of terrorist groups in the U.S., is now being promoted as a "star" in the Tribunal's advisory group.

The main target: the state

These radical circles are determined to stop any effort to bring progress to the backward areas where Mexico's four to six million Indians live. They have said in so many words that the modern national state is their most important enemy. In his speech in the Merida meeting, Bonfil Batalla called on his radical fellows to dismantle the Mexican federal state to form a Yugoslavi-style union of backward ethnic entities. "A Mayan or a Yaqui state would be more legitimate" than some existing Mexican states, said Bonfil.

The "indigenista" script closely follows the war games of Princeton professor Bernard Lewis, whose formulas for "balkanizing" the Middle East into ethnic entities and dismantling nations like Iran guided the destabilization of that country.

In statements to a Mexican journalist this week, Shelton Davis, director of the Boston-based Anthropology Resource Center and a member of the Russell Tribunal advisory council, laid out a parallel scenario to build up confrontations between Latin American governments and Indian groups. The nation-state, he charged, is "inherently" opposed to the Indians' survival since it will "always try to integrate them into the national way of life." Davis said that Indian communities in Latin America and the United States should be administered by international laws and institutions that would supersede national sovereignty.

The past and future of Aztec primitivism

The December 1980 issue of National Geographic contains perhaps the most extensive justification of Aztec cannibalism and human sacrifice since the painter Diego Rivera's autobiographical revelations that he and his circle had regularly cooked and eaten corpses from the Mexican morgue in celebration of primitivism. Excerpts follow from Associate Editor Bart McDowell's article, titled "The Aztecs."

I began to like the Aztecs—to feel a kind of friendship—the day the sorceress kissed my hand.

Respect was another matter: Who has not felt an awe for Aztec achievements? They mastered millions of people and a domain 200 leagues across. Yet, as we read about the endless Aztec wars, the human sacrifice, the ritual cannibalism, who has not felt a queasy revulsion?

"But they also had a gentle side," my old friend architect Hector Hinojosa always argued. "You can't understand modern Mexicans without seeing that. The Aztec farmers were patient, hard-working people—close to the soil. Their descendants are the kindest people you can imagine." . . .

In old Aztec tradition, the ideal sorcerer was described as "wise . . . a counselor, a person of trust . . . keen, careful, helpful; never harms anyone." Even the Spanish missionaries wrote respectfully of Aztec priests: "None . . . were proud; none . . . unruly . . . a pure life . . . None then told lies . . . very devout."

Doña Rufi stood in this kindly tradition. She prayed to a god who was nourished by the blood of children, yet she herself fanned stillborn babies into life. Good people, bad gods: I was learning about the Aztecs.

So are others these days. Along with the surging self-confidence brought by oil discoveries, Mexicans generally are exploring their sense of self, their cultural and political origins. . . . Aztec customs, ceremonies and outlook [are] very much alive. . . .

After sacrificing and skinning the daughter of a Calhua ruler in the valley, the devout Aztecs were driven into the swamps of Lake Texcoco. . . . Dedicating their Great Temple in 1487, they sacrificed between 10,600 and 80,400 people, depending on different sources; at least we know that the ritual killings continued without pause, four at a time, from sunup to sundown for four days. The whole city stank.

Grisly business. But also surrealistically humane. One

scholar has said that the Aztecs were "amateurs at human sacrifice since they had no concept of torture." At the foot of the temple, priests even prayed for the victim. . . .

Afterward, noted chronicler Sahagun, the priests "cooked each one a bowl of a stew of dried maize, called *tlacatlaolli*, which they set before each, and in each was a piece of the flesh of the captive." The feast was itself a sacrament, a means of participating in the divine grace of the victim. . . . Their regard for the human body was entirely respectful. . . ."

The following excerpts from the keynote speech of leading Mexican anthropologist Guillermo Bonfil at the Eighth Interamerican Indigenist Conference are translated from the Nov. 21 edition of Uno Mas Uno.

The advance of cattle ranching, agro-industry, and oil production onto Indian lands as an expression of the dominant interests, in collusion with other privileged sectors of the population, is one of those mistaken policies leading toward a situation from which there is no turning back. . . .

It is evident that the Indians are living under abominable conditions, many of which have existed for 500 years. When you look at a history which since the colonial period is filled with a chain of rebellions, however, it becomes evident that the Indians have not been passive; their resistance has often been violent. This has been unimportant, since during all these years it was difficult for a rebellion in one village to bring about anything more than a massacre, period. But today things are different.

The question of how the state has fomented this violence is a profoundly important problem. Since the time of independence, Mexican rulers have tried to build a state on a model out of correspondence with the real society. They have used a model which implies a homogeneous society, a single language, a single behavioral norm. This has resulted in the policy of trying to incorporate the Indian by force.

Which would be more legitimate? the existence of a state like Colima [a small state west of Mexico City] or of a Mayan state? That is, on a historical basis, a Mayan or Yaqui state would be much more important, much more legitimate, because the present division into states and townships is a politically and administratively arbitrary division, born in the internal conditions of colonialism and political struggles.

In summary, a system of ethnic representation by peoples who could possess well-defined territories would be much more legitimate than the present political division. A fine example is Yugoslavia. . . . Mexico must grant official status to the indigenous languages.

The lid pops off Mexico's Mont Pelerin Society

by Timothy Rush

One of the cardinal rules of the secretive Mont Pelerin Society is that it stays behind the scenes. Its annual gatherings are never reported in the press; its numerous well-endowed think tanks and publishing houses, such as the Institute for Human Studies in Palo Alto, California, the Foundation for Economic Education in Irvington, New York, and the Center for Documentation and Information in Madrid, never identify the Mont Pelerin Society as their unifying "mother."

In fact, the Mont Pelerin Society has no identifiable head office and no literature of its own.

Yet the roster of its members—leading with such names as Milton Friedman and William Simon in the United States, Sir Karl Popper in England, and Count Otto von Hapsburg in Austria—includes household names from almost every OECD country and many developing nations, particularly in Latin America. Each works as a point of entry for Mont Pelerin's radical "free enterprise" ideology in larger institutions and university faculties (see "Mont Pelerin's Hatchetman: Milton Friedman, *EIR*, July 23, 1980).

Thus it was surprising last week when one of Mexico's Mont Pelerin members, dating back to the period of the 1947 founding of the organization at the Mont Pelerin resort in Switzerland, suddenly emerged in print with a defense of the Society's activities by name.

Agustin Navarro Vázquez made his membership in Mont Pelerin the principal theme of his widely read column in the weekly magazine *Impacto*, dated Nov. 19. Mont Pelerin members contacted by the *EIR* in the United States have registered dismay that the nature and activities of the society have become a matter of public debate in this way.

One member volunteered his particular embarrassment at Navarro Vázquez's final words: "Mexico's distinguished families will put you [the *EIR* and a Mexican columnist] in your place."

The *EIR* drew Navarro Vázquez's wrath after an *EIR* Dateline Mexico Special Report on "Reagan's Mexico Connection" was serialized front page in the Mexico City newspaper *Excelsior* by columnist Manuel Buendia, starting Nov. 7, 1980.

The wide-ranging *EIR* study, first prepared in August 1980, included an analysis of Mont Pelerin's Mexico chapter and its activities on behalf of the Reagan candidacy.

In the United States, the attempt by Mont Pelerin leaders such as Milton Friedman to dictate Reagan administration economic policy is at the center of intense transition-period factional struggle.

In Mexico, the issue is just as hot. As this journal revealed in a recent Dateline Mexico column, it was at this year's Mont Pelerin Society annual meeting, held in Palo Alto, California at the beginning of September, that orders were issued for a major destabilization drive against the Mexican state and against those substantial sections of the Mexican business community collaborating with the state in the "Alliance for Production" program.

One of the channels for the orders, according to sources, went through Navarro Vázquez, present at the Palo Alto conclave, to the director of the CEESP private-sector think tank.

The CEESP, in collaboration with Mont Pelerin disciple Luis Pazos, subsequently launched a massive propaganda drive to convince the Mexican private sector that Pinochet's Chile was an appropriate model of what Mexico should look like under a true "free enterprise" system.

As part of the same campaign, William F. Buckley, a 30-year collaborator of Mont Pelerin and a thrice-yearly visitor to its Madrid Documentation and Information Center, wrote a column for national U.S. syndication eulogizing Luis Pazos as "The Milton Friedman of Mexico." Buckley reproduced the Pazos/CEESP attacks on the Mexican state sector verbatim for the U.S. audience.

The *EIR* role

The sheer rage and vituperation of the Navarro Vázquez column (excerpts below) reveals something important about the increasing role *EIR* and the La-Rouche-Riemann model, developed by our economics staff in collaboration with the Fusion Energy Foundation, are playing in the heated Mexican economic policy fight.

There are essentially three econometric-backed approaches which are competing: the direct Mont Pelerin Friedmanite approach; the Wharton School model of recent Nobel Laureate Lawrence Klein; and the La-

Navarro Vásquez protests in *Impacto* column

In his two-page diatribe in the Nov. 19 issue of *Impacto*, long-time Mexican Mont Pelerin leader Agustin Navarro Vásquez figuratively tore out his hair that a special *EIR* report had brought the role of Milton Friedman and Mont Pelerin to center stage in Mexican political and economic discussion.

Not wishing to face down the *EIR* directly, however, Navarro Vásquez instead took the curious tactic of addressing the *Excelsior* columnist who serialized the *EIR* study, Manuel Buendia, as if Buendia himself were the author. This, although Buendia went to great lengths to identify the source of the study, and Navarro Vásquez himself opened an attack on the *EIR* by name at the end of the *Impacto* article.

Though constantly taking "Buendia" to task for lying journalism, Navarro in fact confirmed all of the basic *EIR* information and added some new information of his own: that his son, Agustin Jr., has been a full-fledged member of Mont Pelerin for several years, and that the old-line Mexican Pelerin members look down on Luis Pazos as a parvenu. For the flavor, some excerpts:

On his membership in Mont Pelerin: Thanks for the compliment and I promise to merit it, because I believe there are very few groups as important, distinguished and select as the Mont Pelerin Society. . . . I give thanks for your referring to my most honored membership of 20 years in that ineluctable summit of universal social-economic thought that brings togeth-

er philosophers, thinkers, economists, sociologists, true journalists (not like you!).

Response to the EIR (note that Milton Friedman advocates legalization of drugs and highlights drug-infested Hong Kong as a "free enterprise" model:)

What's going on, Buendia? You don't even know how to slander someone? For your information, which you so greatly lack, Hong Kong is a city with enormous industrial power and is a model of the effectiveness of private enterprise. . . . [and] proves the miracle of the functioning of economic liberty. Unfortunately for you, Buendia, you cannot erase this with a stroke of the pen.

On the Executive Intelligence Review, identified by address and telephone number in the Buendia serialization: What a very strange coincidence that this address and telephone are the headquarters of the "United States Communist Labor Party," as well as various other front organizations as communists are used to doing, as "New International Press Service," to distribute slanderous material to the entire world, communist propaganda; headquarters also of the subversive weekly magazine "Executive Intelligence Review."

On the report's real authorship: You burned yourself this time, Buendia. . . . I suspect you "helped" write this report, using the old and worn techniques of writing something here to have it published abroad, where it is amplified by one's accomplices and gets "kicked back" to Mexico.

Copies of the original EIR Dateline Mexico Special Report, "Reagan's Mexico Connection," August 1980, are available from EIR's New York and Mexico City offices. Cost: \$100 per copy.

Rouche-Riemann model.

The first two are "go slow" approaches, the Friedmanite one rabidly so. Only the LaRouche-Riemann model is premised on the primacy of industrial growth and rapid rates of technological advance as the essential yardsticks of sound economic development.

The initial presentations of the LaRouche-Riemann model in Mexico have met with enormous interest, first in a seminar at the Mexican Petroleum Institute, later at an all-day seminar sponsored by the Mexican Association of Fusion Energy, and finally in two days of

presentations in the northern industrial city of Monterrey.

Reflecting this influence, some of the guiding concerns of this publication—productivity based on advancing technologies, growth of tangible goods production as against mere paper values of speculative investments—were abundantly in evidence at such central policy conclaves as the Nov. 13-15 conference at the Mansion Galindo in the city of Queretaro.

Full elaboration of the LaRouche-Riemann study of the Mexican economy is now close to publication.

Behind the Faisal assassination

Ali Alyami, a Saudi Arabian dissident leader, was complicit; he's now after Prince Fahd.

Arab security services are closing in on a key figure in the Anglo-American intelligence operation that in 1975 brought about the assassination of Saudi Arabia's King Faisal.

According to an independent investigation carried out by the *Executive Intelligence Review*, Ali Alyami, a Saudi Arabian dissident operating out of San Francisco, is the ringleader of the militant Voice of the Vanguard, an underground Saudi opposition group based in Denver and San Francisco. The underground group is committed to overthrowing the Saudi Arabian monarchy.

During the late 1960s and early 1970s, it was Alyami who personally tracked and groomed the future assassin of King Faisal. Since then, Alyami has become a leading organizer of efforts to overthrow the current Saudi regime, and is contacting point men both inside and outside the kingdom to destabilize Prince Fahd.

"We have a few more years to go before the monarchy is overthrown," Alyami confided to a colleague recently. "Unless, of course, we can get rid of Prince Fahd sooner. King Khaled really has no power. When Khaled dies, which will probably be soon, since he is a very sick man, it won't mean too much. Fahd is the key guy. Once he goes, then everything will begin to unravel, and we will be able to take over."

For Saudi Arabian intelligence,

the assassination of King Faisal remains a continuing preoccupation. The unmasking of Alyami provides an important piece in the intelligence puzzle surrounding the destabilization of the Persian Gulf.

Ali Alyami is no newcomer to radical Arab politics. A bedouin from southwest Saudi Arabia, Alyami was fired by the Arabian American Oil Company (Aramco) in the mid-1960s for his subversive political activities.

Soon after coming to the United States in 1967, Alyami introduced King Faisal's nephew and future assassin, Prince Faisal ibn Musa'ed, to one Christine Surma, a third-rate actress who seduced the young prince and kept him under her control in the years leading up to the assassination. Surma and the prince lived together for several years in Colorado and California, the two operational bases of the Voice of the Vanguard.

The immediate family of Prince Faisal were actively involved in anti-monarchist activities inside Saudi Arabia and opposed King Faisal's modernization drive. In 1965, Prince Faisal's older brother, Prince Khaled, was killed when police intervened to break up a violent demonstration Khaled was leading of Islamic fundamentalist zealots who were attempting to storm the newly established TV station in Riyadh to protest King Faisal's introduction of television, which they denounced as "un-Islamic."

Although Prince Faisal was described by people who knew him as apolitical, he underwent a substantial personality change following his liaison with Alyami and Surma, and became obsessed with avenging the death of his brother.

Part of his personality change involved joining the drug counter-culture, of which both Surma and Alyami were (and remain) devotees.

In 1975, when the prince, back in Riyadh, murdered his uncle the king, Surma publicly endorsed the assassination as the act of a good man seeking justice and predicted that her former lover would eventually be recognized as the liberator of Saudi Arabia.

In addition to his position as leader of the Voice of the Vanguard (known in Arabic as the Sout al-Taliah), Alyami is also the director of the Middle East program for the American Friends Service Committee in San Francisco.

The AFSC, which is tied to the Bertrand Russell Peace Foundation in Britain and is sympathetic to the Khomeini regime in Iran, has publicly endorsed Alyami's anti-monarchist work as being of "extreme importance." In a recent piece prepared under AFSC auspices, Alyami welcomed the 1979 uprising in Mecca by Muslim Brotherhood fanatics and the demonstrations by dissident oil workers in eastern Saudi Arabia as the "elements of a revolution that nearly succeeded."

According to his associates, Alyami, who has been banned from entering Saudi Arabia by government officials there, crossed the border several months ago from South Yemen to firm up contacts with anti-monarchist networks inside the kingdom.

Price freeze ends cabinet fight

To PEMEX's chagrin, López Portillo has stopped a price hike on gas and diesel fuel—for now.

President José López Portillo has poured cold water on a brawl between his potential successors in the cabinet over whether to increase domestic prices of gasoline and diesel fuel. Regular gas has been pumped at 46 cents per gallon since 1976.

The president found himself forced to get on top of the cabinet debate, since it had become the subject of almost daily headlines in the Mexico City press. López Portillo chose Nov. 20, the national holiday commemorating the Mexican revolution, to announce that regular gasoline and diesel prices would not increase.

The decision had been taken, he said, because "the most important thing in the near term is to fight inflation, which we must stop in the interests of the nation that . . . has to pay the price of the inflationary pressure."

The president's strategy is apparently to prevent inflation (which increased 24.5 percent during the first 10 months of 1980) from going over 28 percent during the entire year.

This strategy, openly voiced in Banco de México and other official circles, does not rule out more realistic fuel prices after Dec. 31, when the inflationary impact of the hikes would be more easily neutralized.

Most of the economic cabinet, however, had placed their bets on increased prices for all fuels. The Mexican press had leaked that the

economic cabinet had gone so far as to reach a consensus "to walk the painful inflationary road."

Days before the presidential announcement, PEMEX chief Jorge Díaz Serrano had publicly argued that price hikes were needed so that Mexico's petroleum effort would not have to be so dependent on foreign financing. He confidently assured the press that the price hikes would be announced within two weeks.

Finance Minister David Ibarra, Commerce Minister Jorge de la Vega, and Planning Minister Miguel de la Madrid agreed with the PEMEX position—albeit for different reasons.

In addition, the press leaked that this grouping in the cabinet had already fully prepared the announcement of the "painful decision." Commerce Minister De la Vega had been selected for the thankless task.

However, signs of an about-face began to emerge on Nov. 18. Industry Minister José Andrés de Oteyza, who had fought in the cabinet from the word go against the increase, held a press conference that afternoon to reveal the new National Energy Plan.

Exuding the kind of confidence which flows in Mexico only with secure knowledge of presidential backing, Oteyza proclaimed that regular gas and diesel prices would *not* rise, since that would be inflationary. Luxury high-test, however,

would rise.

For those politicians who still believed in Díaz Serrano's presidential possibilities, López Portillo's subsequent support for the de Oteyza line dunked their heads in a cool bucket of reality.

In an unmistakable criticism of the head of *Petróleos Mexicanos*, and the first of the entire presidential term, the president chided: "Although there are good reasons for those who produce it [oil] to justify the measure, the society, the nation . . . is now bearing the burden of inflation."

López Portillo went on to elaborate that he wished to dispel "information and disinformation" that existed regarding the sensitive gas price question.

Díaz Serrano lost some further ground with the issuance this week of the new National Energy Plan by de Oteyza's industry ministry, an act which apparently relegates until the next administration the creation of a cabinet-level energy ministry proper, which Díaz Serrano was hoping to head. Without a cabinet post, Díaz Serrano's chances for the presidency in 1982 are virtually nil.

Planning Minister Miguel de la Madrid is also having rough going lately.

He gave the featured speech on the anniversary of the Mexican revolution, which some thought was filled with political punch befitting a potential future president.

However, the presidential decision putting an end to the cabinet battle was splashed all over the news and editorial pages of the press, while de la Madrid's brilliant oratory got buried.

In the world of Mexican politics, such events are very significant.

International Intelligence

China offers ports to Seventh Fleet

The Japanese news agency JIJI reported Nov. 22 that Chinese authorities are sounding out the possibility of offering Chinese ports to the U.S. Seventh Fleet. The proposal is that the Seventh Fleet use the port of Shanghai and Julin in Hainan. The vice-premier of the State Council, Geng Biao, suggested in 1979 on the eve of Deng Xiaoping's visit to the U.S. that the fleet's presence in the South China Sea could be used to supply the Pol Pot forces in Kampuchea and to transfer to China information about the actions of the Vietnamese navy. U.S. "defense of the South China Sea" would then leave China free to "concentrate on its northern border" according to Geng Biao.

China specialists in New Delhi are suggesting that Peking may have revived this proposal to test the new Reagan administration's commitment to the "China card" policy.

Ghana pre-empts coup, throws out Libyans

The Ghana government on the evening of Nov. 17 gave the entire staff of the Libyan embassy 48 hours to get out of the country. Subsequent press accounts in Ghana's capital, Accra, charged that Libyan head of state Muammar Qaddafi was financing "a supposed revolutionary group based in Ghana which was preparing a bloody coup d'état."

This is the latest in a series of destabilizations across central and west Africa that Qaddafi has been charged with instigating. Libyan military intervention into the civil war in the central African country of Chad has been publicly confirmed by Chadian leaders who are being supported by Colonel Qaddafi. Between two and three thousand Libyan troops are in Chad, and Soviet-supplied Libyan aircraft are bombing the positions of the

anti-Libyan faction in Chad's capital, Ndjamena.

In October, Qaddafi issued a call to the Muslim and nomadic populations of the west African countries of Mali and Niger to revolt against their governments, and join his "holy war" to establish an Islamic Saharan republic. At the end of October the west African state of Gambia had to appeal to neighboring Senegal for military aid to defeat a Libyan-supported coup attempt there.

Opposition figures from most countries in West and North Africa are supported by Libya, and their followers and other tribal elements are being given military training in Libya.

Israel to give Bolivia rural aid?

Bolivian Education Minister Colonel Ariel Coca was offered a \$14 million rural education and training program by Israeli ambassador Shlomo Levi Nov. 13, according to the *Jerusalem Post*.

Bolivia's rural economy revolves almost entirely around production of the coca bush from which cocaine is refined.

The military government is notorious for its ties to international cocaine traffickers. Last year, Colonel Coca intervened to obtain the release of a pilot caught with 100 kilos of Bolivian cocaine from a Panamanian jail.

French diplomat proposes Central American plan

At the end of his five-day visit to Mexico, French Deputy Foreign Minister Olivier Stirn declared that neither nation wants to see "the Caribbean and Central American become a battle zone between East and West." Stirn said he had a long discussion with Mexican President José López Portillo on how to stabilize the region so that "each country has the

right to organize itself freely in a peaceful environment without any foreign intervention."

A French official who was accompanying Stirn told *EIR* that France wants to see Mexico take a leading role in Latin America in a political "joint venture" with France.

German parliament debates economic policy

In a Nov. 17 debate in the West German parliament, Christian Democratic Union spokesman Walther Leissler Kiep, who is a member of the party's liberal wing, warned of the dangers of dirigistic economic policies in the Third World, then attacked the chancellor's refusal to press for large-scale nuclear energy development.

Economics Minister Otto von Lambsdorff called for austerity to increase capital investment, and specifically praised the ambitious French nuclear energy program. He declared, "I'm not one of the Chicago boys," adding that high U.S. interest rates are causing problems for the German economy.

Arab League summit: upgrade ties to Europe

In the opening sessions of the Arab League summit, which convened Nov. 26 in Amman, Jordan, Arab heads of state called for improved relations with Europe as well as upgraded economic development plans.

In his address to the conference, Arab League Secretary General Chadli Klibi called upon the Arab world to work closely with Europe and to use its ties with Europe as a lever for changing U.S. Middle East policy. "The European stance," he stated, "is the best because it draws a link between European interests and Arab rights."

Jordan's King Hussein, the summit host, greeted the conference by warning of the threat emanating from "conflicts between Arab governments, which become deeper and lead to crises, usually because of failure to deal with them quickly." Hussein was alluding to the deep rift that has emerged between the prodevelopment Jordan-Iraq-Saudi axis and the Iran-Syria-Libya bloc.

In addition to publicly stating their wish to work with Europe, the Arab heads of state also agreed to a series of proposals for economic planning, investment, and development of the Arab world. A \$62 billion five-year plan for economic development was approved by the attendees, with \$19 billion allocated for infrastructure, \$18 billion for scientific development, \$15 billion for food production, and \$10 billion for industry. "The task at hand," said King Hussein, "is not agreement on this matter; we all agree. The task is now implementation of the program."

Iran's war effort on the brink of collapse

Iran's war effort is fast falling apart, according to *EIR's* military intelligence sources, who report that Iran's claims of military victories and successful counterattacks are nothing but "exaggerations."

According to French sources, Iran's war effort has bogged down in the northwestern province of Khuzestan, where Iraqi forces continue to consolidate their hold. Famine has begun to break out in Iran's cities, and sources are predicting a "winter of discontent" that could bring down the Khomeini government.

In an interview with the Kuwaiti press last week, Iraqi Foreign Minister Saadoun Hammadi said that life in Iraq is quickly returning to normal. Foreign companies that had pulled out their personnel in the early days of the war are now sending their employees back to Iraq to continue work on Iraq's development projects.

London Times promotes Anglo-Italian axis

"Italy is a country without a strong sense of national identity and its most recent attempt at international assertiveness [was] at the time of Mussolini," stated the *London Times* in a Nov. 24 editorial.

The *Times* editorial, written as Prime Minister Margaret Thatcher concluded a two-day visit to Italy, argued Thatcher's view that the role for Italy in world affairs is to join with Britain.

Italy, the *Times* suggests, could become the mentor of the new European Community members Spain, Portugal, and Greece, "as a means of guaranteeing that they will not slip back into dictatorship." Now, therefore, they should hook up with Britain, recommends the *Times*. "Ties with Britain have always been seen in Italy as a way of counterbalancing exclusive arrangements to their north. The Italians have no objection to the Franco-German alliance as such, but they do have the feel of being excluded and would like to develop the British link in response."

Civil war increases refugees from Chad

Refugees from southern Chad have been arriving in neighboring Cameroon, after fleeing from the seven-month-old civil war.

The refugees report foodstuffs were increasingly lacking. They need 85,000 tons of food to make up the deficit in the area, and that military forces in control of the area were holding peasants and townspeople to ransom.

On Nov. 24 the French government issued a statement expressing "serious worries" at the intervention of "important armed elements from abroad . . . causing numerous victims among its population and threatens the stability of the region."

Briefly

● **EQBAL AHMED**, a senior fellow at Washington's Institute for Policy Studies, is eager to meet with Saudi radicals and dissidents who wish to overthrow the current Saudi regime, according to Arab intelligence sources. Ahmed, a director of IPS's Transnational Institute in London, was a key figure in Anglo-American intelligence operations that toppled the Shah and installed Khomeini into power in Iran.

● **ARMIN MEYER**, U.S. ambassador to Iran during the Johnson administration and currently a professor at Georgetown University, is visiting Saudi Arabia and other parts of the Middle East. Meyer has been identified by intelligence sources as an intermediary between Washington officialdom and the leadership of the fundamentalist Islamic Republican Party in Iran, and is said to have longstanding ties to networks in the international secret society, the Muslim Brotherhood.

● **SETTLERS** on the Israeli-occupied West Bank show a 20 percent drug addiction rate among the youthful population, according to sources in Europe involved in fighting drugs. This rate is in contrast to the 8 percent rate prevailing in high schools within Israel.

● **AN EIR** conference in Rome Dec. 4 will include the presentation of a proposal for reconstructing southern Italy in the wake of the recent earthquakes. The proposal, drafted by the Partito Operaio Europeo (European Labor Party), will include construction of earthquake-proof nuplexes in the Naples/Palermo area, as the basis for fully mechanized agriculture and modern irrigation; a full transportation infrastructure; and quake-proof housing. Nuplexes are urban industrial complexes centered around nuclear power plants.

Behind the 'Hong Kong' urban policy proposals

by Lonnie Wolfe

The Heritage Foundation, a right-wing think tank linked to the Thatcher government in Great Britain, is making a big push to take over key policy-formulating positions in the incoming Reagan administration. The foundation, which has prepared more than 3,000 pages of policy proposals, is in the process of conduiting them for repackaging through various transition team task forces, *EIR's* Washington sources say.

This is the real story behind the much-publicized proposals made last week by a Reagan urban policy task force, which called for rent decontrol, youth subminimum wage, and the establishment of urban free-enterprise zones. Individuals familiar with the work of the task force and with the Foundation identified the proposals as "boilerplate Heritage."

This was confirmed by Stuart Butler, a Scottish urban policy specialist at Heritage. Butler was trained at St. Andrews University in Scotland and was formerly executive secretary of the Adam Smith Institute in London. He told a reporter that he and his cothinkers intended to "use the conservative Reagan government to impose some radical left-wing economic proposals—all based on sound liberal economics."

Butler identified the core of the urban program as the "free enterprise zone." These are to be established in the most devastated ghetto areas, like New York's South Bronx. Inside the zones, all government regulations would be relaxed, while tax shelters would be created to encourage low-wage cottage industry and counterculture head and disco shops.

In their public discussions with Reagan supporters,

Butler and his Heritage friends boast that this plan is currently being implemented by the Conservative Party government's Chancellor of the Exchequer Sir Geoffrey Howe. Sir Geoffrey describes the plan as bringing the Hong Kong economic model home to Britain.

The task force proposals—most immediately, the plan to eliminate rent control—has put the incoming administration at odds with various urban constituencies. There have already been loud cries of disapproval from prominent political and community leaders in cities in the Northeast and Midwest. The knowledge that the Heritage Foundation might be saddling the Reagan team with a political albatross has prompted official transition spokesmen to state that the President-elect has not yet endorsed the task force proposals.

Ronald Reagan has, however, on several occasions endorsed the idea of creating urban free enterprise zones. It remains unclear whether the President-elect has endorsed the intent of the proposals put forward by the Foundation, whether he supports the turning of U.S. cities into "free enterprise economies" modeled on Hong Kong.

Perhaps unknown to most of those Reagan supporters—except those who have suffered through Butler's prolific writings on the subject—is the fact that the Tory Sir Geoffrey borrowed the idea from Professor Peter Hall, the former chairman of the socialist Fabian Society and an adviser to the Labour Party. Hall continues to back the program, despite opposition from Labour.

Reagan supporters may also find Mr. Butler's private explanation of this collaboration between the Tory-

linked Heritage Foundation and the Fabians quite illuminating. "There really isn't all that much difference between the Heritage Foundation and the Fabian Society on many issues," he says. "We really overlap right in the middle of things in our mutual support for local control. We are in favor of encouraging people to do their own thing."

Butler is certain that the Heritage Foundation will be able to sell Reagan some "free market" solutions—as long as they keep their Fabian origins downplayed.

The real estate gambit

The overall objective of the Heritage Foundation's plan for U.S. cities is to channel tens of billions of dollars into the urban real estate market. Without this new infusion of speculative cash, the already overblown market is ripe for a "blowout . . . a real collapse," Butler said. He pointed out that "billions of dollars in both foreign and domestic capital" can easily be channeled into the real estate market—and channeled away from investment in the industrial productive base of the economy. Federal Reserve Chairman Paul Volcker's tight money policies forcing up interest rates is helping make capital available, Butler said. The Fed's proposal last week to create "International Banking Facilities," which will bring hundreds of millions of dollars in the offshore Eurodollar markets back home to the U.S., represents another pool of cash that could be sopped up by urban real estate speculation, Butler reported.

"There is going to be an almost unlimited supply of dollars looking for something to do," he stated. "We are going to provide a direction for them to go." Heritage is drafting proposals to rewrite urban real-estate law to facilitate this. Meanwhile, Reagan is being urged to move quickly on the enterprise zone proposal.

The speculative investment is to be backed by the establishment of a Hong Kong "workhouse" economy in selected urban areas. Butler is a vehement opponent of the minimum wage. Butler presented this vision of his ideal free enterprise zone to a reporter: wherever possible, existing dilapidated housing would be utilized. In the basements, there would be small sewing shops, labor intensive assembly shops that have become the hallmark of Hong Kong, and perhaps some service related businesses like Chinese laundries. On the ground floor an assortment of head shops, record shops and discos, bars often catered to by "ethnic clientele." On the floors above, apartments with rents decontrolled.

In vacant lots, small temporary workhouse type living quarters can be built; in larger open areas, a small labor-intensive factory. Wages would be relatively low, said Butler, but community spirit would be high.

"We have not been getting any real use out of poor people," Butler complained. "We can't afford this anymore. If we don't simply decide to eliminate them or

ship them somewhere, then we have to put them to work and get some use out of them."

Columbia University professor Emmanuel Savas, a member of the Reagan transition task force that incorporated the Heritage-linked urban proposals, said that such ideas have been tested in Hong Kong and can turn U.S. cities into "Third World-style boom towns."

Butler was instrumental in selling the free enterprise zone concept to Republican Congressman Jack Kemp of New York, its most outspoken proponent in the Congress and the Reagan camp. "Butler is our contact with the British," an aide to Kemp reported.

Kemp's office is currently redrafting legislation on the enterprise zones for the next session of Congress.

Butler sees broad support developing for the proposal from groups who will be attracted to its local control philosophy. "If the Socialist Workers Party or some other group wants to set up shop in the enterprise zone—that's great. That's what local control is all about."

An article by Butler in the April 1980 issue of the periodical *Reason* references Britain's Sir Geoffrey Howe in a similar vein. "As Sir Geoffrey points out, there would be no reason why various groups such as anarchists, communists, libertarians or religious sects should not put their philosophies into practice in areas within the enterprise zones."

Harder to sell

Butler described the other proposals in the package, in particular rent decontrol and the voucher system to subsidize rents, as not saleable—for the time being.

Columbia University's Savas said they were included—quite consciously—in the public proposal to "provide an intellectual shock . . . the key thing is the gradual permeation of new ideas into people's consciousness . . . gradually society will start to adopt them."

According to Butler, rent decontrol and the voucher for rent proposal are handouts to urban slumlords. The voucher proposal is simply a check handed out to a poor family, redeemable only by a landlord.

Reagan, said Butler, shares the public's suspicion of such schemes, but he must be "forced to sanction—whether he likes it or not—massive handouts to landlords, one way or another."

Butler, the Fabian Peter Hall, and Sir Geoffrey Howe all agree that their programs represent a bridge to what they term a "post-industrial future." Reagan, however, is reportedly not yet prepared to accept the idea that industrial nations must structure their economic policy to phase out a heavy industry-based urban economy, Butler lamented. "His people see this as too radical, but we are working on them. The enterprise zone is a step in the right direction."

Conservatives build for leadership role in the House

On Nov. 21, EIR interviewed Rep. Charles Stenholm of Texas, the leader of a group of 33 conservative House Democrats who are demanding a greater role in House policymaking and more important committee assignments. The Conservative Forum met with House Speaker Tip O'Neill on Nov. 19 and with Majority Leader Jim Wright on Nov. 20. The New York Times has reported that the group could bloc with the 192 Republicans in the new Congress and create a new majority on policy issues. Excerpts from the interview follow.

EIR: Representative Stenholm, what is the Conservative Forum?

Rep. Stenholm: It is an ad hoc group of conservative Democrats who began organizing a couple of months ago. We felt that the Democratic umbrella had been exclusive of conservative philosophical members for quite some time, both by intent and not so much by intent. We felt that under the rules of the political process, the only way to counteract that exclusiveness would be to organize to be able to present our story in as strong a manner as we could.

EIR: What Congressmen are involved and who shares your view?

Rep. Stenholm: Well, at this point we have not decided to release the names of our group as yet because we anticipate that our group will grow. We have thirty-three members at the present time. We anticipate that by the time of the organization of the Democratic caucus and the Ninety-Seventh Congress that our group will number around forty.

We felt that under the process under which we have organized, where we have attempted to put together the most conservative members of the House as a result of a rating system which is a combination of various rating systems of various groups . . . we have attempted to put it together as being a representative group of the most conservative Democrats in the House.

EIR: What do you mean by "conservative Democrat"?

Rep. Stenholm: Basically, you are talking in terms of, first off, those who are concerned about the defense posture of our nation, those who have, in the past, been on the losing side of votes within the Congress to cut

defense spending and increase social spending, which has been occurring at a tremendous rate since the early seventies.

You are talking about members of the House who believe it imperative that we balance the federal budget; that we cut federal expenditures, and then we begin cutting taxes. We are talking about members of the House who feel that we have imposed too much federal government on the American people; those who believe we have far too much regulation; those who have heeded the voices of the American people and sung "help us get out from under the tremendous paperwork burden that has been imposed on small business," for example. . . . and, just speaking generally, those who feel we have far too much federal intervention in the daily lives of American citizens.

EIR: Are there specific policy goals that your group will work with the Republicans in the House and Senate to accomplish?

Rep. Stenholm: Let me make one point clear. We are an organization of Democrats who are concerned about the Democratic Party, who are concerned about the direction of our party. Our Conservative Democratic Forum is going to be working within the political system, as Democrats, for the purpose of moderating our party, and making it more acceptable to the American people, and we feel that if we are unsuccessful in this endeavor, that we will be the minority party in the House also in 1982.

EIR: Do you have a view on the Emergency Executive Meeting of the Democratic National Committee coming up on December ninth, what direction it should take, and a new chairman?

Rep. Stenholm: I cannot speak officially because we have not taken a position or addressed that question. Thus far, our group has confined ourselves to discussing the issue of getting a more fair representation for conservative members of the Democratic Party within the House of Representatives.

We are very concerned about the direction of the Democratic National Committee has taken, as we are concerned at the direction which our own various state parties have taken with regard to policies, procedures and perceptions that we have given to the American people, to which the American people have said "no thank you." So, yes, we are very concerned with the direction and what occurs with the DNC, and we do intend to work closely with them as they deliberate over these issues. I would say, personally, that the new chairman should be one who has no ties to any of the so-called more prominent prospective nominees of our party in four years.

EIR: Federal Reserve policy seems to have become a major focus of debate in the incoming Reagan administration. What do you think of the ruling by the Federal Reserve's Board of Governors to institute International Bank Facilities, in other words, free banking zones?

Rep. Stenholm: I have some great concern about that . . . I have concern about any proposed national banking group or worldwide banking group or world-imposed monetary policies. I think we had better look twice at that.

EIR: Some people say that Volcker and his board are preempting congressional action on it by passing it by fiat before Congress comes back into session. Do you have a comment?

Rep. Stenholm: It is strongly suggested that that was done, and I can't underscore my own personal concern too much with the perceived direction that they moved.

EIR: Many are saying that now that farm prices are going up, this would be a good time to increase price supports and work toward parity. What do you think?

Rep. Stenholm: I certainly agree that we need to increase loan levels from where they are now, because if once again we have misleading signals coming from the marketplace, that there is an unlimited demand for food, and then once again the American farmer responds to that demand, and if we find, as we did in the not too distant past, that we have overproduced, the financial disasters to American farmers would be tremendous.

I certainly think that we need to increase the levels of the loans, not to 100 percent of parity, but to increase them to such a level that working in conjunction with the farmer-held reserve system that we would be able to maintain farm income at a more acceptable level than where it is today.

We still have not sold one bushel of wheat in 1980 above the average cost of production in the United States to anybody. So the concern that many are expressing that food has moved too high, in fact, is unfounded—it has not yet reached cost of production levels on the average in the United States.

EIR: How do you feel about Senator Boren's [an Oklahoma Democrat] comments about "consensus" and working out policies to enact together with the congressional Republicans?

Rep. Stenholm: I certainly think that the mandate of the American people on November fourth is one that anyone who intends to have a political future must listen to. We think that the problems of our country are serious enough that it is time for us to begin trying to work out solutions. Arriving at a consensus in the majority of the House is certainly one of our goals.

A series of EIR Seminars

In Florida

The Undeclared War on American Banking

An Economic Growth Perspective for U.S. Banks

Jacksonville

2:00 p.m. Wednesday, Dec. 10
Sheridan-St. John Place
1515 Prudential Drive

Miami

2:00 p.m. Thursday, Dec. 11
Howard Johnson's
Miami Plaza
200 Southeast Second Avenue

Speakers:

David Goldman, Economics Editor, EIR
Representative, American Agriculture Movement
Representative, Homebuilders of Florida
Inquiries to Shelley Ascher, (301) 539-7123

In New York City

World Trade and the New York Port

Prospects for the Future

2:00 p.m. Wednesday, Jan. 14
Place to be announced

Speaker:

David Goldman, Economics Editor, EIR
Inquiries to Susan Bowen, (212) 625-5964

In Baltimore

Expanding the Baltimore Port

A Necessity for Regional Industrial Revival

2:00 p.m. Monday, Jan. 26
Place to be announced

Speaker:

David Goldman, Economics Editor, EIR
Inquiries to Shelley Ascher, (301) 539-7123

Registration: \$50

Opposition mounts to Federal Reserve credit crunch

by Graham Lowry

Democratic and Republican leaders of the New Jersey State Assembly have formally backed and presented to the clerk an emergency resolution demanding the removal of Paul Volcker from his office as chairman of the Federal Reserve Board.

The New Jersey legislative move, part of a growing pattern of national opposition to Volcker's continuing policy of driving up interest rates, comes at a point when the U.S. economy is in a race against time to avert a full-scale blowout.

The urgency of mobilizing sufficient political muscle to oust Volcker has increased this week, with clear signals that Britain is ready to proceed with triggering a major crisis for the dollar, with the objective of forcing the incoming Reagan administration to impose the policies of Milton Friedman on the remains of the U.S. economy.

Reflecting this threat, Reagan economic advisers Jack Kemp and David Stockman issued the following warning to the President-elect in a staff memorandum: "the momentum of short-run economic, financial, and budget forces is creating the condition for an economic Dunkirk during the first 24 hours of the Reagan administration."

Countermoves against Volcker

Resolutions demanding Volcker's resignation have been passed during the last week by a number of organizations around the country, including the Democratic Party of Genesee County, Michigan, and the American Agricultural Movement of Huntsville County, Alabama.

The New Jersey State Assembly resolution, sponsored by Banking and Insurance Committee Chairman James Bornheimer, has been endorsed by the majority and minority leaderships, as well as by Assemblyman Joseph Patero, chairman of the body's Labor Committee.

The measure is set to be read by the clerk for adoption at the Assembly's next session on Dec. 8, and is expected to be approved overwhelmingly.

The proposed New Jersey resolution quotes from another, passed unanimously by the Assembly a year

ago, demanding that Volcker "immediately lower the interest rate levels and loosen his tight money policy" or resign.

The new resolution directs the New Jersey congressional delegation to work for "the removal of Paul A. Volcker as chairman of the Federal Reserve System, and shifting the policies of the Federal Reserve to fostering plentiful cheap credit for manufacturing, farming and related *productive* enterprises, thereby fostering a continually expanding tax base as well as stability in the bond markets, so that municipalities are enabled to provide the services necessary to a healthy American population."

Fed 'goes for broke'

New York investment houses are predicting further hikes in the prime rate. The chief operating officer for Lehman Brothers, Kuhn, Loeb told Reuters Nov. 24 that it is "conceivable" that prime rates could exceed the record 20 percent level set earlier this year. David Jones, economist for another Wall Street firm, succinctly noted, "The Fed is willing to go for broke."

What Volcker is counting on is that his continuing credit squeeze will collapse the U.S. economy's remaining productive base to the point that the only recourse for American industry will be to shut down production. Then, with no one borrowing money, interest rates will drop, and the only thing left of the dollar—speculative funds—will be pulled out to burst the bubble. With continued high interest rates now, a crash will hit by the first quarter of next year.

Labor role critical

Amid the growing political opposition to the Volcker policy, the role of organized labor is perhaps the most critical. The forces which gave Ronald Reagan his victory in the presidential election are a coalition consisting of both Friedmanite austerity advocates and constituencies committed to economic growth. Which policy course governs the incoming administration will be largely determined by the outcome of the fight to dump Volcker.

American trade unions, which tended to sit back and nurse their wounds in the wake of election losses to the Democratic Party, more recently are moving into active opposition to Volcker's policies. Much of the pressure behind the New Jersey resolution has come from labor, and over a dozen local union leaders in the state have called publicly for Volcker's resignation.

In Pennsylvania, United Auto Workers leader John McCarrell has called for a national demonstration against Volcker. So far, 15 Pittsburgh area Steelworker union leaders have sent him telegrams of support demanding Volcker's ouster.

Soviet 'moles' target new administration through Heritage Foundation conduits

by Lyndon H. LaRouche, Jr., Contributing Editor

There is nothing accidental in the fact that Soviet Politburo spokesman Boris Ponomarev and the Washington, D.C.-based Heritage Foundation are presently attempting to prevent the incoming Reagan administration from developing close cooperation with our nation's allies on the Western European continent.

But, wait a moment. Do not leap quite so quickly to sweeping, irresponsible conclusions. Don't be like Roy Cohn. Don't begin pointing a dirty finger of accusation against every prominent figure who happens to be associated with the Heritage Foundation. Think of Macy's store abutting Manhattan's Herald Square.

The Macy's-Store Principle of counterespionage

In the old days, before Mayor Ed Koch took his turn in the proverbial barrel, Manhattan's streets were not yet a living-theater re-enactment of the movie "Clockwork Orange." In those days one did not require a platoon of Green Berets to reach the Herald Square entrance to Macy's famous department store. In such bygone days, there was no presumption of insanity in the act of either walking or taking a subway to shop at that store.

Somewhere in that incredible past, even I have been seen in Macy's store more than once. If you could travel back in time to those days, I would go so far as to recommend that if you found yourself in the vicinity near the close of a business day, you might find the delicatessen at Macy's of respectable quality.

Directing my memory to such past times, I know that perfectly sensible and decent people used to shop at Macy's in droves. The fact that my associates caught Macy's attempting to cash checks stolen from us in a

mail-theft skimming operation has no bearing on the moral qualities of either Macy's merchandise or of the people who find that merchandise of tolerable quality at tolerable prices.

I wouldn't mind if a child of mine bought merchandise at Macy's. I would worry considerably if that child became involved socially with the families of certain Macy's executives.

In other words, one does not burn down the Executive Office Building across from the White House simply because a few Soviet KGB or other unsavory "moles" have managed to secure appointments to departments on those premises. One does not round up associates of the Heritage Foundation as suspected Soviet KGB moles in wholesale lots simply because some unsavory characters are using the Heritage Foundation as a conduit for evil meddling in our government's affairs.

Think of yourself as a U.S. counterespionage operative looking for a Soviet KGB "mole" somewhere around the premises at Macy's. That is the gist of the Macy's-Store Principle of counterespionage.

A lesson in counterintelligence

I have learned a great deal about counterintelligence during the past decade, and, I may add fairly, my associates and I have demonstrated qualifications which go far beyond the mere academic.

Operational counterintelligence is axiomatically prevented from indulging in the principal kinds of blunders committed by the academic. The academic wishes to postpone judgment until all of the evidence is presumed to be in hand, and fully cross-checked. From the standpoint of the academic, it appears that the counter-

intelligence operative is at a considerable disadvantage. The operative must often act long before “conclusive” findings are turned up and cross-checked. Contrary to the mistaken view of the academic on this point, the effective, experienced operative usually produces a far better quality of intelligence than the academic.

In first approximation, the distinction is illustrated by the case of the law-enforcement officer who arrests a knife-wielding assailant. The officer should not hesitate to ponder whether the assailant will actually kill the woman unless deterred. The officer should not attempt to draw the conclusion on the spot, whether or not the assailant is the current reincarnation of “Jack the Ripper.” Good counterintelligence is essentially a method for making appropriate on-the-spot judgments for action.

Suppose that the assailant of that illustrative case is in fact a hired assassin of a ring, and that his assault in the particular case is the result of a decision passed through a chain-of-command going back to an ultimate source several levels removed from the ring which immediately deployed the assailant. It may be several cases later before the existence of the ring is pinned down as a connected feature of the first case. It may be through entirely different channels of operations and investigations that the first level above the ring itself is connected positively to the deployment of the ring’s resources.

Yet, in such a case as that composed for purposes of illustration here, back at the station-house some alert investigation may recognize from study of both the perpetrator and circumstances of the incident something which points toward the existence of some sort of ring, which casts doubt on the assumption that the criminality of the perpetrator is an isolated “sociological phenomenon.” It is such a subtle distinction of emphasis in investigations of a single case which distinguishes ad hoc security and law-enforcement action from the higher levels of counterintelligence.

The method of the qualified counterintelligence operative is essentially identical with the methods properly adopted by a scientist in making successive breakthroughs of the sort we call scientific discovery. That connection is underlined in exemplary fashion by Edgar Allan Poe’s development of his character C. Auguste Dupin. Poe’s fictional Dupin is based on the great French economist of Monge and Carnot’s Ecole Polytechnique, the Dupin directly linked to the Lafayette-led Cincinnatus Society of the 1820s, and directly linked, through such connections as Lafayette and Friedrich List, to the Philadelphia center of the United States’ private counterintelligence organization of that same period. This was the same organization, developed

under the leadership of Benjamin Franklin, to which Cincinnatus Society operative Poe was attached.

From crucial features of an initial matter of investigation one constructs a set of alternative, interconnected “investigative hypotheses.” Such investigative hypotheses have the same proper rules as a well-developed scientific hypothesis in the domain of physical science, so-called. One of the great intelligence operatives of modern history, the Dominican monk Giordano Bruno, the confederate of Tudor England’s John Dee (the original, real-life operative who signed his reports to Queen Elizabeth “007”), developed the method for both science and other modes of investigation in extended Platonic dialogues devoted to this matter of adducing reality from patterns of shadows.

We—my associates and I—have undergone such experience repeatedly over the course of the past decade

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and a half, beginning with our investigation to discover who was really programming the spring-summer 1968 SDS-centered festivities at Columbia University and at the Chicago Democratic convention of that same year. From a mere academician’s standpoint, our analysis was often *wrong, in his choice of terms*, in the sense that we had not yet plumbed the bottom of the deployments we were investigating, for example. Yet, generally, we have been *operationally correct*; in the cited case we had simply not progressed far enough. We had rightly identified the “bad guys” immediately behind the SDS leadership and the Mark Rudd-led “Action Faction” as certain “left-wing intelligence networks” efficiently connected to Herbert Marcuse and persons within the Ford Foundation. How the blasted thing really worked, we did not yet know, but we were confronted with a need to act, and what we determined was accurate and necessary for guiding us to appropriate forms of action at that time.

Even now, in matters relating to “moles” in the Heritage Foundation, we have not yet gotten to the bottom of the business. However, we do know with certainty more than all but a privileged relative few.

The point of method will become clearer as we proceed with the immediate case at hand. It will become clearer because we have now pointed out to the reader the nature of the methodological problem he or she must take into account in investigating the matter of "moles" in the Heritage Foundation.

Like a good law-enforcement officer confronted with probable evidence of a crime in progress, we must approach the investigation of the Heritage Foundation by examining critically the facts as they appear to us. The apparent fact of the matter in this case is that influential elements working through the Heritage Foundation are steering that Foundation's capabilities to effect the same ends stipulated by the Soviet Politburo's Boris Ponomarev at a recent meeting of communist parties' representatives held in East Berlin.

At the next level of investigation, we must determine whether there is an efficient connection between the Washington offices of the Heritage Foundation and the Soviet KGB offices in Moscow. We find that such a connection exists, and that it involves some of the highest levels of organization at both ends of the connection.

Now, the reader must exert caution. This does not prove, necessarily, that the relevant highly placed connections into the Heritage Foundation are Soviet KGB "moles." At the end of this report, we will have shown that there are certain agents of foreign intelligence organizations deployed as "moles" against the United States' vital strategic interests through Heritage Foundation channels of influence on Capitol Hill. We will also have shown that these "moles" are effectively agents of the policies adopted by those responsible for Boris Ponomarev's statement of new Soviet strategic doctrine at East Berlin. *Operationally*, as a problem for the security of the United States, we must treat them *as if* they were agents of the Soviet KGB. On a deeper level, the matter is slightly more complex.

The history of the investigation

The investigation of the Heritage Foundation began in June 1978. This was begun as a security counterintelligence inquiry, motivated by cross-checked indications of a homicidal assault directed against me as target, during that period. (There were actual, aborted deployments against me in Michigan during this period of time.)

Undercover investigation of the Heritage Foundation's extraordinary, nationwide, intensive deployment against me, begun during May-June 1978, and continuing at the present time, isolated a self-avowed British intelligence operative, Francis M. Watson. Watson volunteered names of key accomplices, aiding undercover

The Foundation

The Heritage Foundation is the main American center for promulgation of British Prime Minister Margaret Thatcher's economic policies. Officially, Heritage is a branch of the Thatcher government's official London think tank, the Center for Policy Studies. The foundation's director of research, Robert L. Scheuttinger, is a fellow of the Center for Policy Studies, reporting to Sir Keith Joseph, Thatcher's industry minister.

The Heritage Foundation was founded in 1975 with funding from the Mobil Oil corporation, and secondary support from Coors Beer. In 1976 it was taken over by its current president, Edwin Feulner, Jr., a graduate of the Fabian London School of Economics, who brought a whole string of top-level British intelligence operatives into association with the Foundation, including Robert Moss, Julian Amery, and Winston Churchill III. Moss edits the London *Economist's* Foreign Report, a barely concealed front for British intelligence. Amery, son of Sir Leopold Amery of the Loeb-Rhodes trust, is an intimate of the Evelyn de Rothschild-Lord Harlech circle and a member of the elite British Round Table. He has occupied a top post in Britain's MI-6 foreign espionage organization since his World War II days in the Special Operations Executive.

Thatcher, Keith Joseph, and Chancellor of the Exchequer Sir Geoffrey Howe (who wrote the laudatory introduction to Heritage's latest pamphlet on urban free enterprise zones) have already shown what the Heritage Foundation's policies mean in practice. Gasoline prices in Britain have risen to \$2.10 a gallon, interest rates are at 14 percent; government subsidies for industry have been eliminated; and the British nationalized industrial core is being hacked apart. With the approval of the Heritage Foundation, the British population is now subject to a degree of austerity not seen during the 1930s.

The Heritage Foundation promotes its ideas through a number of publications, including its quarterly magazine *Policy Review*. The foundation has sought to gain influence with the incoming Reagan administration by submitting a 3,000-page set of recommendations on all aspects of foreign and domestic policy. Two of the foundation's trustees, William Simon and Frank Shakespeare, are rated as having a favorable chance of obtaining a high post in the Reagan administration.

investigators in mapping out cross-checks. Michael Deaver, then associated with the *Citizens for the Republic* newsletter, volunteered the name of Watson and others as the persons approaching him in the effort to insert defamatory falsehoods in that newsletter. Watson and others volunteered admission of the information volunteered by Michael Deaver, and more, subsequently verified, information.

The deployment of the Heritage Foundation was proven to have been conducted through the international Mont Pelerin Society, in cooperation with the London International Institute for Strategic Studies (IISS). The published roster of the personnel directing the Heritage Foundation, following a previous reorganization, corroborated the investigative evidence that the Foundation was controlled by the Mont Pelerin Society and IISS.

During the same period, persons in the leadership of B'nai B'rith's Anti-Defamation League (ADL) were deployed in parallel and interconnected operations against me and my associates. These operations were directly interlinked with the operations of the Heritage Foundation's Francis M. Watson et al. Although the ADL officials involved are formally agents of the B'nai B'rith, from the standpoint of the ordinary member of B'nai B'rith, the actions taken were essentially *ultra vires*. The intelligence activities of the ADL's Irving Suall et al. are not initiated on behalf of B'nai B'rith, but are a misuse of the resources of B'nai B'rith on orders from a command center of British intelligence based in London.

According to intelligence-witting executives in some of the most influential financial institutions of Western Europe and the United States, the motive for the deployment of assassination threats against me during that period was the impending introduction of the European Monetary System proposal by France's President Valéry Giscard d'Estaing and Chancellor Helmut Schmidt of the Federal Republic of Germany. According to these several highly-placed sources, each volunteering information independently of one another, the inside gossip in London-centered financial circles was that I represented a "serious potential danger" because of the agreement between the European Monetary Fund feature of President Giscard's and Chancellor Schmidt's proposal and my own widely circulated proposal for establishing a new, gold-reserve-based international re-discount facility as the crucial institution of international monetary reform.

That information received coincided with the known proprietorship of the Michigan-based Communist Labor Party and other groups complicit in conducting planned physical assaults on my person.

During the same general period, an official of the Church of England volunteered to undercover operatives that the ADL was being deployed on orders of British intelligence, thus placing the ADL in the position to be the scapegoat for any backfire emerging from the British-intelligence-ordered deployment of ADL resources.

Situating the co-deployment of Heritage Foundation and ADL resources within the "mother" agency responsible for both these libel, slander and harassment campaigns, as well as the projected assassination attacks, the immediate authorship was narrowed to a section of the Anglo-Canadian Special Operations Executive (SOE) of Stephenson et al. Nominally disbanded shortly after the end of the last World War, SOE was continued in a private corporate form, and is in fact larger and much more powerful today than it was at the close of the last war. The elements of this SOE network positively identified as "mother" for the combined Heritage Foundation and ADL deployment are typified by the networks of the British SOE psychological-warfare arm, the London Tavistock Institute (Sussex), plus the same Canadian-based section of the SOE apparatus linked to attempted assassinations of President Charles de Gaulle and indicted by a Louisiana grand jury for complicity in preparing the conditions for the assassination of President John F. Kennedy. The faction of the SOE apparatus associated with Permindex and Major Louis M. Bloomfield is exemplary of the latter.

This is the same network prominent in the link between the Soviet KGB and the "moles" in the Heritage Foundation today.

Before focusing directly on the current problem involving the Heritage Foundation, two points of background information must be developed here for the reader's summary knowledge. Where do the Mont Pelerin Society and IISS, the controllers of the Heritage Foundation, fit within the complex of the British Secret Intelligence Service? In other words, *what is the continuing channel of link to Soviet KGB General H. "Kim" Philby?*

The IISS

The London International Institute for Strategic Studies (IISS) is not an intelligence investigations and evaluations organization. It is merely a propaganda outlet for other agencies of British SIS, a function attested to by its emphasis on recruiting publishers, editors and journalistic specialists in security-policy matters. London IISS is the "mother" organization for a network of daughter organizations spread around the world. *Its principal function is to spread lies, not to provide candid intelligence.*

IISS fits principally under the London Tavistock Institute (Sussex) branch of psychological-warfare, and dovetails most closely with the "Russian Studies" subdivision of Tavistock networks.

The scientific name for any public official caught waving around credulously an IISS report on strategic matters is a *dupe*.

Admittedly, IISS is on a much lower level than the stratum of British SIS *through which the Philby connection continues to operate*. IISS corresponds to a level in the hierarchy of intelligence where one finds such lower-ranking "hired guns" as Zbigniew Brzezinski. It, like Brzezinski, does not qualify for "need to know" in such matters as the Philby connection.

Nonetheless, although IISS is relatively trash in the pecking order of international intelligence, the way in which IISS is deployed reflects policies at higher levels,

The connection between the Washington offices of the Heritage Foundation and the Soviet KGB offices in Moscow involves some of the highest levels of organization at both ends of the connection. The matter is complex.

as a shadow on the ground reflects the figure walking past. It is part of the spoor.

The Mont Pelerin Society

Formally, the Mont Pelerin Society was set up in Switzerland at the close of the last World War, under the sponsorship of British SIS. It has a working arrangement with British SIS which causes it to appear often as an arm of British secret intelligence.

The Mont Pelerin Society is a key institution in the present Margaret Thatcher government of the United Kingdom. Sir Keith Joseph is the most visible Mont Pelerin agent in that government. A connected case is the government's treasury official, Sir Geoffrey Howe—the man who has been promising the "light at the end of Milton Friedman's monetarist tunnel" for so long that he might better be known as *Sir Geoffrey When?*

Nonetheless, although such facts have considerable practical importance, they do not represent the end of the investigation.

The complementary organization to the Mont Pelerin Society is the fruity Pan-European Union, presently

headed by the heir to the throne of the Austro-Hungarian Empire, Archduke Otto von Hapsburg. Unlike Queen Elizabeth II, who is no fool, Otto von Hapsburg's intellectual powers hardly reach the magnitude of a potential menace. It is biology, not spirit that determines the Archduke's nominal status in these matters.

The Pan-European Union was originally established under the leadership of Richard Graf von Coudenhove-Kalergi, back during the same 1920s when wretched concoctions such as Benito Mussolini and Adolf Hitler were being promoted by the same Venice-centered "black oligarchical" circles which Coudenhove-Kalergi represented. Why Otto von Hapsburg and his friends opposed Adolf Hitler is not a clear-cut, but a complicated, story which it is not necessary to develop here. The relevant point is that Coudenhove-Kalergi was a prominent Markgraf of the old Austro-Hungarian Empire, whose family was established as a marcher-lord in Eastern Europe through Venice's ownership of the Hapsburg house. Many of the Eastern European oligarchical families are of Venetian or Genoese "black nobility" origins, such as the Kalergi (Venice) and Pallavicini (Genoa).

Does this information appear to border on exotic irrelevance? If the reader thinks so, the reader is very badly mistaken. The reader who thinks this is irrelevant could not possibly understand anything of what is occurring in Poland today, or in the raging factional battles now ongoing in Moscow.

The Pan-European Union was reconstituted at the close of the last World War under the personal sponsorship of Winston Churchill and South Africa's Smuts. It is an anti-capitalist conspiracy, as it avows itself to be. It is dedicated to restoring a feudal order in Europe, and eliminating the institution of the sovereign nation-state, in favor of a World Federalist Union composed of feudalistic "regions." It is poor Otto von Hapsburg's special, frequently declared conceit that he will become the "Emperor of Europe," the "Emperor" of a "Europe of the Regions." Granted, many other-members of the Pan-European Union and the allied Mont Pelerin Society and World Federalist Union may not share poor Otto's dreams for his coronation, but Otto's views are otherwise consistent with the direction of thinking which predominates in all those associated institutions.

Granted, to the average, red-blooded U.S. citizen, the forces behind the World Federalist Union, the Pan-European Union, and the Mont Pelerin Society appear to be a collection of "real kooks." That may well be the case, but they represent a massive financial and related power in the world. Genghis Khan, too, may have been

a “real kook,” but that deprecatory information would have been of little consolation to Genghis Khan’s numerous victims.

The point to be understood is that British SIS is merely the most visible portion of a larger complex of power centered around the same Venice-Genoa “black nobility” which has poisoned the life of European civilization since the latter half of the 13th century. The public insulting of Queen Elizabeth II by a Venetian princess, during the Queen’s recent visit to the old Pallavicini palace in Genoa, is symptomatic of the view among the old “black nobility” of Europe of the British monarchy as a mere parvenu, Hanoverian branch of the Welf household.

The significance of the British Commonwealth, especially Britain, Canada and the “offshore financial complex” associated with the City of London otherwise,

The forces behind the World Federalist Union, the Pan-European Union, and the Mont Pelerin Society appear to be ‘real kooks,’ but they represent a massive financial and related power, centered around the ‘black nobility.’

is that Britain is the largest single nation-state power presently controlled top-down by the Venice-Genoa-centered oligarchist faction of Europe.

Understanding the British

The most commonplace source of the inability of even many U.S. intelligence-community executives to understand British secret-intelligence operations is the disinforming view of most U.S. citizens that the English-speaking culture of the United States is a daughter of the same culture represented by Britain today.

The English-speaking American colonies of the 17th century were established by the Republican party of England, the Commonwealth Party of Oliver Cromwell and John Milton. Those colonies were established not simply to escape religious and related persecution by the Stuart monarchy. The colonies were established as part of a plan developed by the commonwealth factions of both England and France during the preceding century, a plan to hew new republics out of the American wilderness, new republics which, once developed,

would tilt the global balance of forces in favor of the victory of republicanism in Europe.

The formation of the United Kingdom occurred as a coup d’état led by a Genoese-financed Cecil family in England, in concert with the Genoese-owned Scottish lowlands aristocracy. This coup d’état is the immediate subject of William Shakespeare’s *Hamlet*, a Shakespeare whose plays were suppressed by the post-1660 Restoration monarchy of Britain until the British resurrected Shakespeare as a counter-focus to the dramas of the pro-American Friedrich Schiller at the beginning of the 19th century.

The essential features of the 17th century Civil War in England and Scotland, once all the complications are appropriately accounted for, was a revolt of the English people against Genoese usurpation of the British government. The successful counterrevolution against English and Scottish republicanism, effected in 1660, was a reconquest of Britain by the network of Venice-Genoa-centered financial networks.

This is key to understanding the American Revolution as that revolution actually occurred. The essential, underlying cause for the revolution was the same issue which determined the 17th-century Civil War in Britain. Our forebears represented predominantly the same English political culture as Shakespeare and Milton. It was the consolidation of oligarchical power over Britain which made common government with Britain intolerable to American republicans. Every other issue of the American Revolution was either derivative of that fundamental issue, or was an issue chosen for tactical reasons.

The British Secret Intelligence Service of the post-1603 period is not the 16th-century SIS which employed John Dee. The Genoese financier interest in Britain, brought through tax-farming to become the City of London, spawned a branch of the old Venetian-Genoese Levant Company which became known as the British East India Company, complementing a sibling entity of the Netherlands, the Dutch East India Company. Royal Dutch Shell today cannot be properly understood except from that vantage point. By the middle of the 18th century it had become impossible to distinguish officials of the British East India Company and its offshoots, such as Barings bank, from officials of the SIS. Out of that overlap emerged the practice of referring to British SIS as “The Company.”

The man in the street usually considers it exotic that the Anglo-Canadian SOE constituted itself as a private supranational intelligence entity, composed of a complex of interlocking private corporations, at the close of the war. The man in the street ingenuously thinks of intelligence services as agencies of governments, listed

in budgets and tables of organization in the same manner as our own Central Intelligence Agency. He imagines that British intelligence must be essentially the formal SIS, the MI-5 and the various "Q" monstrosities which all report only to the British Monarch, *and not to any Prime Minister.*

That citizen does not understand how the British government is actually organized. Britain is essentially a plantation owned and managed by a private company, by the complex of private corporations which represent the present-day outgrowths of Scottish-border unregulated banking and the British East India Company. The British government is not the agency which deploys British intelligence; it is privately owned British intelligence which deploys the British government as one of its tools.

British 'Company' hatred of LaRouche

If one thinks about it, the hatred of me by the British "Company" is most paradoxical. The monetary reforms I have proposed are the central reason for that hatred, including London's deployment of the Heritage Foundation, Irving Suall et al. against me. On close examination, those proposed reforms would be of the greatest benefit to British industry, and therefore to the British nation generally.

They would accomplish a general rescheduling of the principal portion of the external indebtedness of developing nations and a general reduction of borrowing costs for international trade. This measure would "bail out" not only the major commercial banks of the United States and western continental Europe, but would represent a similar sort of great boon to the British banks. This measure would mean abundant export credit for revitalization of what is presently a collapsing mass of wreckage of British industry today. Prime Minister Margaret Thatcher pointed in the direction of the answer to Britain's paradoxical hatred against me when she referred to the British government as something much "older than capitalism."

The difficulty which our average man in the street would tend to experience in attempting to account for the British "Company's" hatred against me, is that the American citizen understandably attempts to explain such matters in terms of motivations consistent with industrial-capitalist society. In the case of Britain, which most citizens assume—wrongly—to be governed by a perception of industrial-capitalist forms of national self-interest, capitalist industry exists, but does not shape the British government's and City of London's perception of vital interests.

The British "Company," like the Genoese-Venetian finance oligarchy out of which the British government

grew, is essentially "feudalist" in its assessment of self-interest.

The British "Company's" motives, as typified by the stated purpose of "geopolitics" by Lord Alfred Milner's crowd at the beginning of this present century, is to establish for once and for all a "feudalist" sort of "one-world" order. In the view of the "Company," as in the view of the Hapsburgs, and the view of the Genoese-Venetian "black nobility" generally, the principal enemies of their goals are the sovereign nation-state republic and the kind of industrial-capitalism typified best by U.S. Treasury Secretary Alexander Hamilton's outline of the principal features of the American System during the first administration of President George Washington.

The commonplace error of judgment of most citizens is that they project their own moral values upon the British and others. Our citizens' moral values—at least, for most of our citizens—include emphasis upon the sovereign nation-state and the benefits of industrial progress and power. The British "Company" accepts only the principle of power, and rejects the nation-state and industrial progress as intrinsic adversaries of British "Company" interest.

The British "Company" outlook can be fairly cartooned as the viewpoint of a great slumlord who aspires to take over the entire world. He desires to increase his rental income, and abhors with a passion restive tenants who clamor for the production of improvements of the rented premises. In other words, his is the "feudalist" outlook, the outlook which emphasizes the gentlemanly practice of parasitically extracting ground-rent, freed from the hand-dirtying business of living from the profitable production of useful product.

This is the British "Company" viewpoint, as such leading American economists as Friedrich List, Mathew Carey, Henry C. Carey, and William D. Kelley and others understood Britain to be, a mixed feudalist-capitalist economy.

Once one understands the British "Company" from that more accurate vantage-point, the connection of the British to the Hapsburg oligarchy and the "black nobility" of Venice, Genoa and Acapulco is more easily understood as well.

The Soviet connection

On the basis of recurring patterns of policy alignments, we can presently distinguish essentially three political currents in the Soviet leadership. One of these is in effect a Soviet form of the pre-Soviet tradition associated with Petrograd since Peter the Great's collaboration with Gottfried Leibniz. It is pro-science and technology, and approaches relations with the West

from that vantage point of reference to Soviet self-interests. At the opposite extreme, there is a "radical" faction usefully assessed as a present-day echo of the Bukharin faction of the 1920s. In between there are pragmatic Soviet nationalists, who tilt back and forth between the directions represented by the other two.

The "neo-Bukharinite" faction, to employ a convenient short-hand term, is the faction of the Soviet leadership which is most intimately linked to both British intelligence and the Hapsburg/Venice-centered "black nobility" of continental Europe and Acapulco. This faction is presently in predominant control of the Soviet KGB and the Soviet Communist Party's foreign-intelligence think tank, IMEMO. This is KGB General H. "Kim" Philby's faction, and the Moscow end of the connection leading to the "moles" in the Heritage Foundation. *This is also the Moscow faction which organized the present destabilization of Poland.*

A summary of the current developments in Poland is the most useful way to represent the current functions of the Moscow-linked "moles" within the Heritage Foundation.

There are principally three distinct elements backing the "solidarist" trade-union operation in Poland.

The first is the Jesuit-led "solidarist" movement itself, based out of the Free University of Lublin, meaningfully located in the old Austro-Hungarian-occupied portion of partitioned Poland, and presently coordinated via Vienna. Although the Jesuit-led movement developed and leads the "solidarist" forces as a whole, the Jesuit "solidarists" did not initiate the wave of strikes which brought down the government of Edward Gierek.

The forces leading the destabilization from inside Poland are *British secret-intelligence agents, such as Stefan Olzowski, and Soviet KGB operatives, such as the present, transitional government of Stanislaw Kania.* It was the KGB's Kania who rigged the collapse of the Gierek government. The Olzowski forces are "assets" of the London Tavistock Institute.

The Jesuit-led "solidarists" are currently attempting to maneuver toward both safety and whatever gains they may acquire, within an environment rigged from the top by the Soviet KGB and British intelligence.

Although the Soviet KGB performed the decisive role in arranging for the destabilization, this does not mean that Soviet tanks might not roll into Poland under certain quite possible early conditions. The error of most efforts to evaluate the Polish situation is the blunder of presuming that "Poland" is the primary focus of the action which happens to be played out most visibly to the press in Poland. Poland today is essentially a side-effect of a crucial struggle centered in Moscow

itself. What will or might happen to Poland will be determined by the course of present events in Moscow, and not primarily by current developments in Poland.

Essentially, the relevant faction of the British "Company" is currently in a partnership with the neo-Bukharinite faction in Moscow. The immediate strategic objective of the recent Moscow-coordinated "solidarist" destabilization of Poland was to oust an Edward Gierek who was the leading pro-Western statesman of the East bloc as a whole, the close collaborator of France's President Giscard and West Germany's Chancellor Schmidt. The broader objective was to use the Polish destabilization to destroy economic cooperation between eastern and western continental Europe, and to use this shift, combined with further destabilization of the petroleum-exporting Gulf region, to collapse the economies of western continental Europe and Japan.

This operation involves a cooperative effort by KGB-centered and British "Company" forces to push the "center" faction in Moscow against the pro-technology faction, and toward total repudiation of the May 1978 protocol between President Leonid Brezhnev and Chancellor Schmidt. This combination aims at both collapsing the western continental European and Japan economies, and also sparking a brutal form of renewed "cold war" between East and West.

The crushing of the Western European economies is intended to coincide with preemptively forcing the incoming Reagan administration to wreck the U.S. economy by forcing a Thatcher-like, Friedmanite austerity on the United States. In short, London has expressed publicly the fear that the replacement of its puppet, President Carter's administration, by the nationalist-inclined Reagan administration, will lead to an undoing of the wrecking of the U.S. economy which London accomplished through Carter.

The chief asset of London inside the United States at this moment is the Federal Reserve Board of Governors dominated by Fed Chairman Paul A. Volcker.

The complementary asset of London within the United States is the capability of mobilizing an escalating riot potential to greet the incoming Reagan administration. This capability is centered around a complex within our national intelligence community. That complex is essentially the social-democratic apparatus intersecting the Social Democrats U.S.A. (SDUSA), the bureaucracy of the International Ladies Garment Workers Union, and the League for Industrial Democracy. Most of the undesirable nasties on the spook side of our national life center in this network as such, or in its somewhat cut-out offshoot, the neo-Fabian networks of the Institute for Policy Studies (Ramsey Clark's and Philip Agee's terrorist-connected friends).

It is that network which has contracted to build up both the Wilkinson Ku Klux Klan organization, the Covington Nazi sideshow, and the combination around the Communist Workers Party and Yippies. These typify the assets being developed presently to trigger a riotous bloodbath within the United States.

The third channel of British intelligence penetration is typified by the “moles” deployed under the cover of the Heritage Foundation. These “moles” are assigned primarily to penetrate conservative strata on Capitol Hill and within the incoming administration. Their function is to condition the responses of the Congress and the incoming administration to the kinds of domestic and foreign troubles which the allied British “Company” and Soviet KGB-centered forces are presently preparing.

It is in that sense and in that fashion that certain influences conduited under the cover of the Heritage Foundation’s current deployments can be considered as the same thing in effect as Soviet KGB “moles.”

Bukharinism

Nikolai Bukharin was among the highest-ranking of the assets of a joint British-Hapsburg network formerly associated most prominently with the “super-agent” Alexander Helphand (Parvus). During the 1920s, during the period of his greatest power, Bukharin was essentially the top agent of Royal Dutch Shell within the Soviet government.

During the same period of the 1920s, British-trained intelligence operative Karl Korsch was key to the reorganization of Parvusite networks in the form of the “Third Camp” movement. This coincided with pulling-out of large sections of the Parvusite network from the Comintern as the so-called Bukharinite “Right Opposition” of Bukharin, Rykov, G. Ryazanov, Brandler, Thalheimer, and the former Bukharinite leader of the Community Party U.S.A., Jay Lovestone. Both ends of the Parvusite networks were tucked into the ILGWU, SDUSA, and LID within the United States, and integrated for operational purposes both with the Ukrainian fascist outgrowth of the Russian Mensheviks, the NTS, and the gnostic movement spun out of chiefly the Mount Athos monastery in Greece and Belgium’s University of Louvain.

Bukharinism is a special variety of communism developed directly out of Russian nihilism—from which Bukharin was recruited to Vienna training. This variety of communist is violently anti-industrial capitalist, but is more or less equally hate-filled against a capitalist-like development of high-technology big industry in the Soviet Union. The leadership of this particular brand of communist and allied “third camp” networks has al-

Britain is essentially a plantation owned and managed by a private company. . . . The British government is not the agency which deploys British intelligence; it is privately owned British intelligence which deploys the British government as one of its tools.

ways been under the control of the “black nobility” of Europe, which views such communists and “third campers” as a social battering-ram to be deployed against the essential institutions of both the nation-state and industrial development. They have essentially the same function as weapons against states, such as the United States, as the “rock-drug counterculture” and the “anti-nuclear neo-Malthusians.” As has been thoroughly documented, the “rock-drug counterculture” and other obscenities were spawned out of the “New Left’s” assembled raw materials.

My point is clear; “Bukharinism” is an evil which ought not to exist on the face of this earth, but, unfortunately, it does exist as a very considerable problem of civilization as a whole today.

What is particularly informative is the fact that Francis M. Watson composed the first libel against me and my associates, that published by the Heritage Foundation in 1978, in close collaboration with the scummiest side of the IPS networks, the circles of Philip Agee. In the same period, when William Waldman of McGraw-Hill’s *Business Week* concocted the libel it published against me during the fall of 1978, that Mont Pelerin-connected financial editor drew extensively and shamelessly on collaboration with the same Philip Agee circles for boilerplate lies.

Now, purported representatives of the Heritage Foundation have joined the drugged Yippies in fresh targeting operations against me. The “moles” and their dupes within the Heritage Foundation conduct their filth through the congressional staffs of Capitol Hill; the Yippies ply their filth on the streets of New York City. One is bathed, the other is not, but both have the same “mother.”

Clearly they hate me, and perhaps fear me a bit, too. I don’t like them or their evil “mother” one bit.

National News

New energy chairman stresses water goals

The incoming chairman of the Senate Energy Committee, James McClure (R-Id.) told a packed press conference on Nov. 25 that his immediate goals as chairman would be oversight of federal policies in the areas of public lands, minerals policy and water policy. McClure also reaffirmed his strong support for the Breeder Demonstration Project, licensing of reprocessing plants and a vigorous nuclear export policy for the U.S.

McClure underlined his outlook in comments on federal water policy: "[I] will emphasize that federal support of water projects should be viewed as an investment in the future, which provides wealth for the nation as a whole as opposed to merely consuming resources as so many other federal programs. . . . It has long been [my] view that the availability of water is largely determinative of whether our nation's economy will continue to grow and prosper, and as chairman [I] intend to take steps to turn around the no-growth policy advocated by the Carter administration in the area of water resource development."

Senator McClure endorses nuclear-based growth

Speaking Nov. 17 at the annual conference of the American Nuclear Society in Washington, D.C., Sen. James McClure (R-Id.), incoming chairman of the Senate Committee on Energy and Natural Resources, stated: "Nuclear is not just an energy alternative. . . . There are consequences of failing to exercise the nuclear 'option.' It is not just an issue of the dangers or safety of nuclear energy, but a question of war and peace. People talk about the morality of nuclear power. Where is the morality in telling developing countries that people will not live any better in the future because we will not develop the technology to ease their burdens? . . . [or] telling the minorities in this

country who want to share in the economic growth and promise of America that they cannot? Their hope and our hope is that our children will live better than we did. . . . Dramatic changes on Jan. 20 will give us the opportunity to be more in line with what our allies are telling us. . . . In the next few years we may see a move toward limiting nuclear weapons. Then we will need incinerators to turn up the plutonium [in weapons] and you know what the best incinerators will be. We should be turning our swords into plowshares."

French spokesman calls for U.S. nuclear effort

European and U.S. nuclear industry representatives met in Washington the week of Nov. 17 at the annual conference of the Atomic Industrial Forum.

Michel Pecqueur, general director of the French Atomic Energy Commission, who spoke at the AIF meeting Nov. 17, stressed the importance of a nuclear-centered energy policy, both for France and for the United States. "It is my conviction that there is no solution to the world energy problems without a substantial contribution of nuclear energy.

"Even in this country, where a wide variety of energies and technologies are readily available, I am convinced that nuclear energy is a 'must.' With the regard I have for the ability of the American people . . . I can claim my confidence in the future of nuclear energy in this country."

Pecqueur called for a "voluntarist development policy" that would lead to a "16 percent share of the world primary energy balance, at the end of the century, for nuclear energy." "Such a policy," Pecqueur continued, "would naturally imply a parallel growth of the electricity share in energy consumption, especially for industrial applications," which requires "considerable investments: they can only be funded during periods when the world economy is sound enough to mobilize the necessary financial abilities. At the bottom of the crisis, it would be too late."

Farmer-labor committee forms on economic policy

Sixty labor and farm leaders from throughout the U.S. met in New Orleans, La. Nov. 24 to form a committee that will formulate an economic development policy for the nation and will present their recommendations to the Reagan transition team. The meeting included representatives from the AFL-CIO, Teamsters and other unions, and the American Agriculture Movement.

Participants called for a reduction of interest rates and for a GAO report supporting agricultural parity to be released to the public. In addition, the meeting formed a committee to draw up joint farmer-labor proposals in energy, food prices, transportation and education to present to Reagan's advisers.

The main speakers at the meeting included Frank Le Roux, head of the Commodity Credit Corp, in the Kennedy administration, and Uwe Parpart of the New York-based Fusion Energy Foundation. Le Roux, in his presentation, told the gathering that labor must come to understand the economics involved in the process of agricultural production. He compared parity for farmers to Davis-Bacon standards for labor.

Reagan advisers respond to Wirzsup Report

"Surely coping with the gap between the Soviet Union and the U.S. in scientific education is a number-one priority. I have lived in Eastern Europe, and I know what is going on there. What Wirzsup says is perfectly true." Thus commented Dr. Petr Beckmann, noted authority on nuclear energy, and a member of President-Elect Ronald Reagan's Advisory Panel on Energy Policy, in answer to a query on his views on the Wirzsup report.

The Wirzsup Report, released earlier this year by researcher Izaak Wirzsup of the University of Chicago, shocked many Americans by documenting an enormous

gap between the United States and the Soviet Union in scientific education. According to Wirzsup, the average Soviet high school graduate completes a course of study including 6 years of geometry, 2 years of calculus, 4 years of physics, 3 years of chemistry, 2 years of biology, a year of astronomy, and 5 years of mechanical drawing, far outclassing his American counterpart. Overall, the Soviet school system now produces 34 times as many scientifically qualified graduates per year as the United States.

Wirzsup concluded his report saying: "It is my considered opinion that the recent Soviet educational mobilization, although not as spectacular as the launching of the first Sputnik, poses a formidable challenge to the national security of the United States, one that is far more threatening than any in the past and one that will be much more difficult to meet." There has so far been no official response from the Carter administration to the Wirzsup report.

Another Reagan adviser, William O. Baker, retired chairman of the board of Bell Labs and a member of Reagan's 15-man Science and Technology Task Force, said, "the group feels very strongly about the need for improved scientific education. . . . Edward Teller has very strong views on this matter."

House agrees to expand farm credit system

One of the final measures passed by the House before they adjourned Nov. 21 for the Thanksgiving holiday was the bill (S. 1465) authorizing the farmer-owned cooperative Farm Credit System to broaden its lending services to farmers, ranchers and fishermen, including for the first time the authority to finance agricultural exports by cooperatives. With an annual loan volume of approximately \$50 billion, the Farm Credit System is the largest single lender to American agriculture and has acted to shield the farm sector from violent short-term fluctuations in financial conditions. It is now a wholly member-borrower-owned institution.

The provision for export financing by the system has been one of the most controversial aspects of the bill. Financing capability is one of the principal roadblocks to the farmer cooperatives marketing their own grain internationally in direct competition with the five major grain companies who now monopolize the trade. "The importance of the bill is obvious," declared Rep. Ed Jones (D-Tenn.), chairman of the House Conservation and Credit subcommittee of the Agriculture Committee. "By making it possible for the banks for cooperatives to finance exports by member co-ops, we will be helping farmers to get more for their products and helping the nation's balance of trade. Also, this bill will lead to expanded credit for processing and marketing by farms and fishermen; it will provide more liberal mortgage credit for some young farmers; and there will be a specific statutory definition of the rules under which the Farm Credit System serves as a link to national money markets for some other rural lenders."

The bill was approved by voice vote and will be sent to the Senate, which had earlier approved a somewhat different version.

Three-way meeting on Democratic leadership

The outgoing Senate Majority Leader, Robert Byrd of West Virginia, met with House Speaker Tip O'Neill and former Carter campaign chief Robert Strauss on Nov. 21 in Washington. O'Neill emerged from the meeting to blast the current party leadership under John White for having obstructed party support of local candidates. O'Neill announced that he will invite all candidates for party chairman to address a meeting of the House Democratic caucus.

Strauss reported that he has been in touch with aides to Walter Mondale and Edward Kennedy, and that all parties agree that the new chairman should neither be an ally nor an enemy of the probable 1984 presidential candidates.

Briefly

● **WILLIAM VAN CLEAVE**, who is Reagan's senior defense adviser, is opposed by members of the Reagan transition group who actively seek his ouster, according to a Capitol Hill staffer close to the fight.

● **LAURENCE SILBERMAN**, the former ambassador to Yugoslavia, has quit as head of the transition team for the CIA. Silberman was excluded from important briefings given other Reagan staffers by the CIA. Republicans wonder why former CIA director George Bush seems not to have pressured the agency to include Silberman.

● **ALFONSE D'AMATO**, the Senator-elect from New York, has called on his fellow Republicans not to run a candidate against New York City Mayor Ed Koch, a Democrat, when Koch seeks reelection in 1981. The announcement has reportedly dismayed many supporters of D'Amato, who ran on a platform opposing lax enforcement of drug laws and against "gay rights." Koch is a supporter of both.

● **LUIS ARCE GOMEZ**, foreign minister of Bolivia, met with Reagan advisers and conservative congressmen, and declared that he proposes that the U.S. government buy up Bolivia's cocaine exports to prevent the drug from falling into "illegal hands." The implicit alternative is that Bolivian cocaine will flood the United States.

● **THE SPACE SHUTTLE** will be launched in March or April 1981, "It will be a struggle all the way" to meet the planned 1982 schedule for full operation of the vehicle, according to an official of the National Aeronautics and Space Administration. Part of the difficulty results from the need to replace 37,000 tiles that form part of the heat shield for the shuttle, after it was determined that they would not stand the stress or re-entry.

Assessing our nuclear future

One of Reagan's mandates was energy growth: how will he meet it?

Since the March 1979 incident at Three Mile Island, more than fourteen major nuclear reactor projects have been cancelled in the United States. In the first six months of 1980, domestic utilities scrapped plans to build some 11,000 megawatts of nuclear generating capacity. Aside from an estimated economic benefit to the stagnant economy of high-skilled jobs and orders totaling more than \$15-20 billion, the lost generating capacity represents the power needed to supply 11 cities of one million inhabitants with their entire electricity needs.

Dr. Sigvard Eklund, Director General of the International Atomic Energy Agency, noted recently with bewilderment the worldwide record with respect to nuclear development, especially in light of soaring oil and coal costs. His remarks single out the United States as the core of a major problem. "Until there is a resurgence of demand for new nuclear capacity," Eklund declares, "the fundamental question remains: how and how long can the nuclear industry hibernate or even survive without new orders?"

Several recent industry moves underscore the point. Combustion Engineering, one of the nation's major nuclear suppliers, has not received an order for a Nuclear Steam Supply System (NSSS), the heart of a nuclear reactor, in three years. And a company spokesman estimates that it could be three to four

more years before they get a new order. This stagnation, plus conflicting orders and demands from the Nuclear Regulatory Commission, have forced a shift away from work on their backlog of 19 NSSSs.

Westinghouse, once the giant of the world nuclear industry, has just announced it will phase out operations at its Tampa, Florida plant, which made components for nuclear steam supply systems. The plant was built in the early 1970s when the U.S. held 90 percent of the world reactor market.

Potentially more devastating than reduction of facilities is loss of skilled manpower. With the negative climate fostered by the only president to declare nuclear the energy of last-resort and fill his cabinet departments with avowed anti-nuclear advocates, the enrollment in engineering schools for nuclear engineers is falling catastrophically. Already, industry and government are finding it difficult to attract qualified new personnel. This is a manpower capability which took almost 25 years to establish.

In a recent remark, Kenneth Davis, a senior vice-president of Bechtel Corp., one of the world's leading constructors of nuclear and other power plants, noted that the United States cannot build more than the number of reactors already committed before the end of the century. Davis, who is a prominent spokesman for the nuclear industry, is also a leading member of

Reagan's Energy Transition Team. Let's look more closely at what his remarks would mean. I will state bluntly that they are not adequate to the job before us.

The U.S. now generates some 60,000 megawatts of electric energy from 69 nuclear plants. The current Department of Energy projections call for 260,000 MWe by the year 2000. This would provide us with an estimated 20 percent of electricity. By contrast, the Paris-based International Energy Agency estimates that Europe will have 236,000 MWe of nuclear capacity by 2000. Some 86 MWe of this will come from the French program, which unlike the U.S. and West German efforts has not allowed environmentalist "interventions" and legal challenges to delay their program.

Even with a very conservative growth domestically of 3 percent per year to the year 2000 in constant GNP, that would mean a needed increase of 740,000 MWe electric power production capacity from present over the next 20 years. Deducting the DOE nuclear target, and assuming declining use of oil and gas for electricity generation as a misallocation of that valuable resource, this means that coal-fired plants would have to generate 55 percent of the nation's electricity. To do this, we would have to mine, move, and burn an estimated 2,300 million tons of coal for utility use alone by the year 2000. Total national output today is hovering around 750 million tons.

So, going back to nuclear as the the only feasible long-range power alternative, to get to 260,000 MWe by 2000 would mean building an estimated 11-12 new units per year. Domestic industry capacity is 25-30 reactors per year.