EIR

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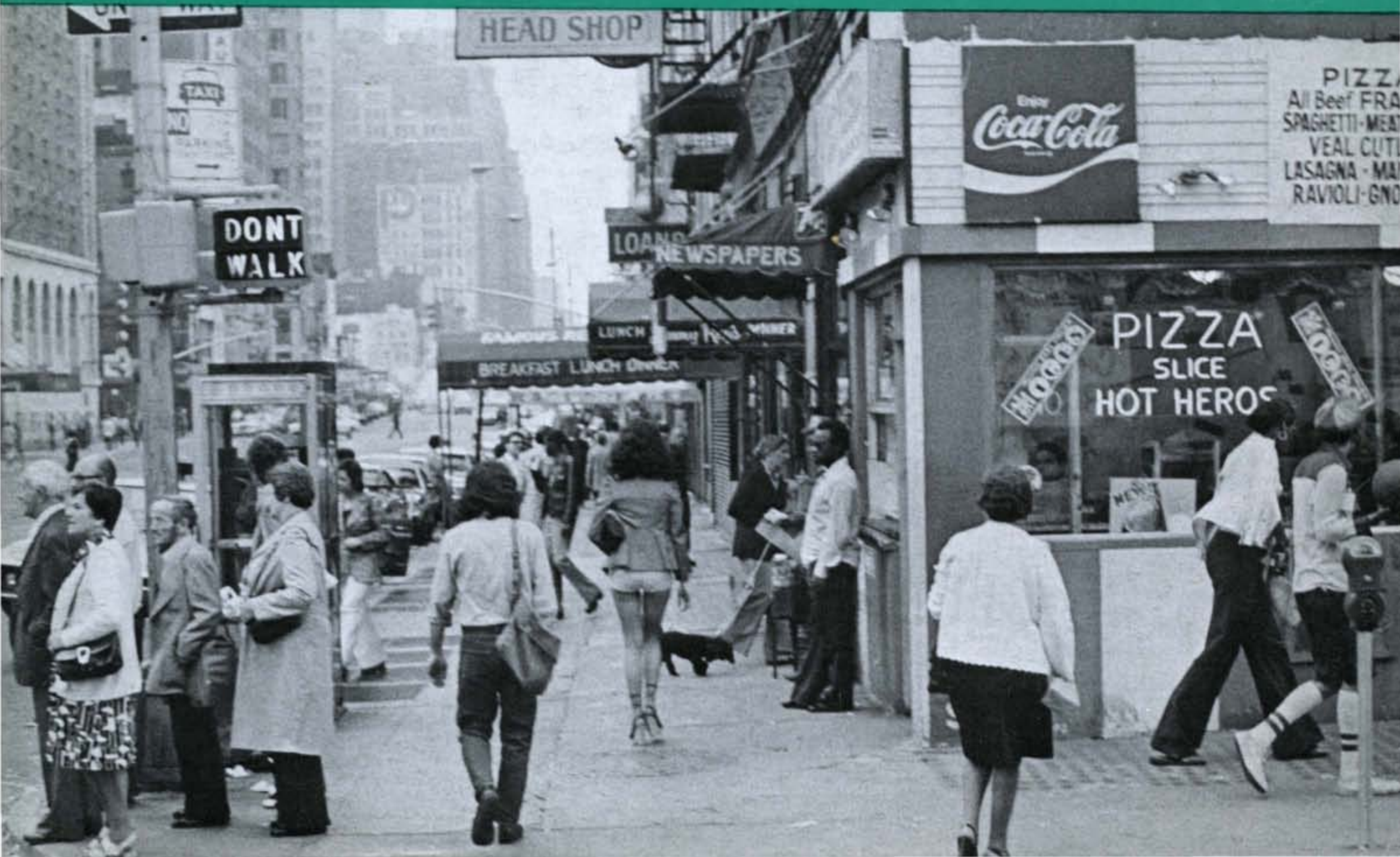
U.S. Savings League convention report
Arab summit sets $60 billion development plan
House Majority Leader: Fed driving nation bankrupt

Free banking zones: selling U.S. cities on the black market



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EIR

From the Editor

At present, the resale value of New York City real estate is an estimated $700 billion—three times the value of all the manufacturing plant and equipment in the entire U.S. economy. This week's Special Report draws out the implications of this fact: how past misinvestment has occurred—featuring the narcotics revenue connection—and what the nation's cities will look like in the future if certain current proposals are allowed to take effect.

The report begins with the International Banking Facilities authorized last month by the Federal Reserve, which under the guise of expanding the U.S. deposit base would effectively merge the money-center banks with the speculative Euromarkets. Regional commercial banks on whom commerce and industry depend would be unable to compete. The flow of speculative, inflationary credit into urban real estate would be multiplied under the guidance of men like Citibank's Walter Wriston, who has already contributed so much to abetting the Federal Reserve's high interest-rate policy.

Under the direction of Economics Editor David Goldman, a team of specialists presents the evidence that the decline of cities like New York is not the consequence of "mismanagement"—except by politicians bought up by the drug and real-estate mafia. The deregulation proposals now urged upon the Reagan administration by various bankers, academics, and think tankers would, the report concludes, turn American cities into Hong Kongs—the kind of low-wage, high-rent, degradation-filled places immigrants fled to America to escape.

Our Economics section features the outcries at the recent U.S. Savings League convention against Paul Volcker's destruction of the homebuilding industry; the danger that thrift institutions will accept mortgage indexation; and the explicit resolve of Volcker's friends at the Treasury and elsewhere to end the American citizenry's expectation that a private house should be within reach.

In addition, I'd like to point out the report in our National section that documents an unprecedented public attack on Volcker from congressional Democrats—whose call for "productive credit" has gone unreported in the nation's national and regional news media.

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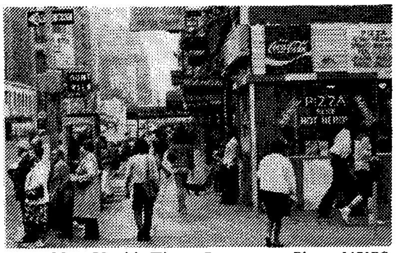
Special Report



Near New York's Times Square. Photo: NSIPS

International

National

The EIR has warned for over five years that the decline in American industrial, scientific and moral strength would undermine the nation's military capabilities and security. Industrial weakness has led to deficiencies in military hardware, and the decline of scientific research and education has removed from American youth the moral desire to serve and fight for the country.

Now, the Executive Intelligence Review presents a full strategic assessment of the condition of the U.S. armed forces. How far has America fallen behind the Soviet Union? How severe is the manpower problem? What is the actual "surge" capability of the American economy for arms buildup? This and more in:

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Editorial

Congress must control the Fed

Since the Carter election defeat, which was recognized as a mandate against the economic policies that have collapsed the nation's industry and sent interest rates and inflation through the roof, Fed Chairman Paul Volcker has acted as though he received a vote of confidence. Volcker has raised interest rates over four points since the election, consolidating the aim he set in October 1979 when he stated that "the American living standard has got to decline."

Volcker got his decline: a 10 percent decline in workers' consumption, a 50 percent decline in auto and construction, and a more than 8 percent decline in industrial production overall.

Now, thanks to Volcker's policies, interest rates have reached their highest mark since last spring and Volcker has admitted "the likelihood of a squeeze." The Fed chairman told the Securities Industry Association recently that fighting inflation will be a "painful process . . . unless inflation yields sooner than later, you're in for a rough time."

These policies, which will ensure a devastated economy by Inauguration Day, must be stopped before Reagan takes over the White House.

President-elect Reagan has made it clear that his economic goals do not cohere with a 20 percent inflation chasing a 20 percent interest rate.

The battle to turn around the Federal Reserve's dictatorship over the American economy now depends on a strong bipartisan effort to end tight credit policies and put America back to work.

The constituencies of the nation have made it known to their elected officials that they will not stand for the wholesale dismantling of the economy. Anti-Volcker warfare has broken out in the Congress, launched particularly by House Democrats after they returned from the Thanksgiving recess, where the mood of the electorate was clearly voiced.

House Majority Leader James Wright threw his weight against Volcker, saying that "Members of the Federal Reserve Board have taken it on themselves to plunge this country into recession."

Later in the week, as anti-Volcker motion gained momentum throughout the nation, Wright went even further: "It is said that a guillotine will cure a headache; by that logic, perhaps the Federal Reserve knows what it is doing. . . . What will it take for the Federal Reserve to realize that high interest rates are not the cure for inflation but the cause of inflation? . . .

"Our analysts on the budget committee estimate that each percentage point rise in interest-rates increases federal spending by about $2 billion for debt service. So the rise between June . . . and today . . . could cost the federal government roughly $12 billion.

"Now let us add another factor. Today's rates are killing the auto industry, the housing industry, and they are killing business activity. Does anyone here doubt that the result will be at least a 1 percent rise in unemployment? And what does a 1 percent rise in unemployment cost the government, $20 to $25 billion?. . . If interest rates had remained at the lower level, we might have had a balanced budget."

Representative Bill Alexander, an Arkansas Democrat, went on to hit the Fed for obliterating the distinction between credit for productive and non-productive purposes, between "inflationary and non-inflationary credit."

This is in fact the key to assuring the economic recovery of the nation. Congress has the constitutional responsibility to retake control over credit generation, and tie it explicitly to the expansion of real production in hard-commodity areas such as steel, auto, transportation, and agriculture.

These are the proven policies of the American System of economic growth, and the key to assuring that Reagan's election mandate is carried out.

U.S. Savings League Annual Convention

Thrift institutions fight for their lives

by Kathy Burdman

The over 2,000 executives of the nation's savings and loan banks who gathered in San Francisco Nov. 16-20 for the U.S. League of Savings Association 1980 Annual Convention reflected with dead accuracy the mood of America. Fighting mad at the way Federal Reserve Board Chairman Paul Volcker's credit squeeze has throttled U.S. mortgage lending, U.S. League leaders in speech after speech rose to denounce Volcker.

The Fed chairman and his allies "should share early departure" from their jobs if Volcker continues to raise interest rates past reason, Leonard Shane, California president and regional director of the U.S. League told *EIR* in an interview. "I don't believe you're going to control inflation with interest rates. I don't see how Volcker can continue a policy that has failed."

S&L leaders, who do over 43 percent of America's residential mortgages, particularly attacked Volcker's enforced 25 percent drop in U.S. housing starts this year.

The nation's savings and loan institutions are in danger of walking right into a trap laid for them by Paul Volcker, Comptroller of the Currency John Heimann, and Federal Home Loan Bank Board Chairman Jay Janis.

They are about to adopt major portions of Volcker's mortgage policy: *mortgage indexation.*

The League is actively considering as inevitable the transformation of the U.S. banking and home lending system into the British and Canadian model of fully indexed mortgage markets now being urged by Volcker. As U.S. League Senior Counselor Norman Strunk stated in his convention speech, subtitled "Is There Life After Death?": "The S&L business in the form we have known it since World War II . . . is dead. It is time for a quiet burial of the long-term fixed rate mortgage . . . as is going on in Great Britain and Canada."

Strunk urged that the U.S. mortgage market be indexed, that all new mortgages be made at floating rates, whose interest payments will change as often as in the Variable Rate Mortgage (VRM)—every six months.

Only if U.S. S&Ls adapt to British indexation will they survive—although "transformed," Strunk said.

EIR does not believe there is such a "life after death" for America's savings and loan industry. As U.S. League Vice President Roy G. Green said, the general adoption of indexed mortgages will make housing in this country "unaffordable." British-style banking deregulation will shut down the U.S. home mortgage industry, and most S&Ls with it (see article page 37).

The U.S. League needs an alternative to Volcker's policy.

'Take to the streets'

On one level, the U.S. League is certainly aware that Volcker's banking deregulation under the March 1980 Depository Institutions Deregulation Act just doesn't work in any economic—or human—sense. "The people of our inner cities in the 1980s, given the total frustration over housing—unless we move to solve the real danger, they will take to the streets on the housing issue," Leonard Shane told *EIR*.

"Mortgage rates and interest rates are too high. Housing is in a slump. And we are moving into another earnings crunch," U.S. League outgoing President Edwin B. Brooks, Jr. said in his convention keynote. "It has been devastating to the housing industry and it has cost homebuyers millions of dollars in interest payments on their loans."

"I don't believe that housing should be made the scapegoat," Mr. Brooks told *EIR*. "I just don't believe that housing should have to compete with the casinos in Atlantic City, or with foreign countries, for credit. We've got to continue to house Americans, and we've got to build up our industry."

The Volcker Fed, Heimann's Comptroller's office, and allied regulatory agencies are now engaged in a virtual coup against Congress and other elected officials, League leaders further warned, taking over U.S. banking policy.

"Talking about Volcker at the Fed, the question is whether the direction of the nation's social and economic development is not being diverted," Mr. Shane told *EIR*. "This country is on the road to a major policy change, a long-range move away from our traditional commitment to housing, without any public debate.

"I don't want to use the word 'sneak,' but Volcker doesn't feel obliged to reach into the public arena for major decisions. I think it's horrible to put nonelected officials in a position to effect major shaping of national policy . . . not authorized by elected officials."

Kicking off the convention Nov. 17, Sen. Edwin "Jake" Garn of Utah, the Reagan Republican who will soon take the chairmanship of the Senate Banking Committee, similarly warned the convention that Volcker's Depository Institutions Deregulation Committee, which oversees the Deregulation Act, was acting to usurp congressional authority. The Committee "ignored the clear intent of Congress" in its actions allowing interest rates to soar this year, "and so its actions must be reviewed and corrected by the next Congress," Senator Garn said.

"Let Congress make the laws, not the regulatory agencies," Senator Garn told *EIR* in an exclusive interview following the convention, printed in full in our last week's issue. "Major national policy decisions should be made by Congress, and should not be drifted into by the regulatory agencies. I as chairman don't want things to just happen, to have the regulatory agencies sitting there making decisions involving our whole financial community."

Milton Feinerman, President of the Federal Home Loan Bank of San Francisco, warned in his convention speech that the Fed and the New York-led top 100 commercial banks are deliberately manipulating U.S. credit allocation so that "housing—because it is an outlawed priority, they say—must be scrapped."

In particular, Feinerman warned that the Fed is conducting banking deregulation in such a way as to raise S&Ls' costs and force them to cut back on housing credit. "Strong support, especially from the Federal Reserve and the commercial banks, has been given to the argument that scarce resources are most efficiently allocated in an economy free of regulatory impediments," Feinerman stated. "Make no mistake about it. The Federal Reserve and the commercial banks believe in the unification of our nation's financial system under the direct control of the Federal Reserve.

"I ask you to evaluate the danger and fallout from the possible misuse of such tremendous power vested in one agency."

Stiff upper lip

The U.S. League, however, has as yet come up with no real alternative to Volcker's deregulation. As a result, in practice the League has thrown all its political weight behind the one program which will ensure the extinction of the S&L industry: British-style mortgage indexation.

U.S. League Counselor Norman Strunk was clearly unhappy with the proposition in his speech, yet said that "realism" dictates that American S&Ls accept the British system. The Anglo-Canadian banks have already been deregulated and should be emulated, he said. "Much of what we are experiencing toward free market operations currently in this country is going on in Great Britain. Competition among institutions and open-market pricing are becoming very prevalent among the banks and building societies [British S&Ls] in Great Britain. In Canada for many years there has been a complete absence of governmental restrictions. Realism led in Canada ten years ago to the development of the roll-over mortgage and the virtual disappearance of the long-term fixed rate mortgage. As it happened in Canada, it is time for a quiet burial of that depression-era credit instrument. We are wisely taking a considerable step in their direction with our renegotiable rate mortgages."

Deregulation of the Anglo-Canadian banks' usury ceilings has meant they must pay sharply higher rates to their depositors, Mr. Strunk noted, raising their costs of doing business, especially as inflation brings deposit rates into double digits. Once these conditions were accepted, he said, British building societies could no longer afford to make long-term fixed-interest mortgages at 5 or 7 percent for 30 years without going bankrupt.

Instead, banks were "forced" to index mortgages, to let their rates float or be adjusted every six months to the same market interest rates they had to pay for deposits, into the double digits.

All this is true, but the effects of banking deregulation on the British economy should immediately alert S&Ls that something is horribly wrong there. During the period described by Mr. Strunk, since the advent of the Margaret Thatcher government in 1978, British housing construction has collapsed (while unemployment has skyrocketed to 8.6 percent, and industrial production has fallen by over 11 percent, worse than the 1929-30 Depression record).

Mr. Strunk, who was for many years the respected executive director of the U.S. League, now holds the position of secretary-general of the International Union of Building Societies and Savings Associations, the world organization of mortgage banks which is dominated by the British building societies. He is doubtless influenced by the British S&Ls and the dismal circumstances of the moribund British economy within which they operate.

The fact is that indexed mortgages were the intent of the banking deregulators led by Paul Volcker, William Proxmire, and Henry Reuss in the first place. Close studies of the history of the 1980 deregulation act show that Volcker were not merely interested in "letting the S&Ls compete" for deposits by "freeing them" to pay more through phaseout of usury ceilings like Reg Q.

The reason given for the end to usury ceilings was itself that *mortgages were too cheap*, and they should be forced to be more expensive and less fixed, less predictable. "Ten years ago when depositors were very, very dumb and were willing to get a lousy 5 percent, what they did was subsidize the mortgage market in effect," a top Treasury official who worked on the deregulation act told *EIR*.

"The great unwashed masses of depositors got 5 percent, and so the S&Ls could afford to make mortgage loans at 7 percent to the smaller middle/upper-class few who could afford homes—this was an effective tax on the poor to subsidize housing for the rich.

"Mortgages were underpriced, period. These small-town fat S&L executives believed they had some kind of religious duty to keep making home mortgages at affordable rates, beyond all economic reason, at fairy-tale prices."

The deregulation act was rammed through explicitly to "raise mortgage prices," the official stated. "Mortgage rates have been raised, and they should be even higher than they are. Thrifts should be forced to price them not on their actual 8 percent costs of deposits, but on the interest rates they are foregoing by not investing in Treasury bonds at 12 percent and investing instead in mortgages."

Why in the world would the deregulators want to make mortgages more expensive, *EIR* asked.

"Because we have *too much housing in this country*," came the answer. "Ten years ago when depositors were dumb and subsidizing mortgages, we went on a home-building spree, we built houses all over the country, contractors had a grand time. Gee, wasn't that fun, Ma? But now we have too many houses and scarce resources, especially scarce capital. We can't afford capital for housing.

"I think it's outrageous that the typical college graduate today expects automatically to be able to live in a 3-bedroom house with one and a half baths. He thinks it's his God-given right—that's asinine. He says it's the American dream—who says he's right? If he wants it he's going to have to pay more, a lot more, and then he'll see that he's going to have to be satisfied with a smaller, more efficient apartment."

It could not be clearer: one of the premises of the deregulation act is to destroy homebuilding. In particular, indexing mortgages will be one of the most efficient destructors. "Variable rate mortgages, renegotiable-rate mortgages, these are a god-send to us," said the Treasury official. "They make housing simply too expensive, and unplannable to boot."

U.S. League Vice President Roy G. Green told *EIR* in fact that the British-Canadian indexation system makes housing "simply unaffordable." Deregulation does not work because "I'm not sure that housing will ever be competitive at 15-18 percent interest rates. I don't think the consumer can afford such rates for any length of time," Mr. Green said.

American S&Ls cannot "accommodate" to the destruction of U.S. housing. The deregulation act is bad legislation and should never have been passed. The DIDC is unconstitutional, as the U.S. League charges in its current landmark suit against the Fed and the DIDC, and should be repealed.

But, as U.S. League President Rollin Barnard told *EIR*, "The suit against the DIDC is merely a defensive measure. What is really needed is to go on the *offensive*, to create the kind of banking structure that can build this nation." Mr. Barnard called for new legislation to accomplish this. The League has also established a Committee on Savings Industry Development, to be headed by Roy G. Green, to develop a legislative strategy.

EIR looks forward to covering their efforts.

President Barnard wants to take the offensive

EIR's banking columnist, Kathy Burdman, interviewed U.S. Savings League President Rolling D. Barnard last month.

EIR: What is your evaluation of Volcker's banking deregulation program?

Barnard: We oppose deregulation; we have a suit against the Depository Institutions Deregulation Committee

(DIDC) which charges that it is unconstitutional. We'll win this suit, but it's just a tactic on a narrow part of the S&Ls' narrow self-interest. It's just a cobblestone in the pavement, a defensive measure. What is really needed is to go on the *offensive,* to create the kind of banking structure that has built and can build this nation. What has to be done if we're a capitalistic nation is, let's start creating some capital here. We must revitalize the entire U.S. economy, reindustrialize it.

We intend to lay out a 60- to 120-day program when Congress reconvenes next year for a legislative review of this basic problem—the banking system as a whole is capital short. We need to renovate the banking system to provide capital for national industrial revitalization, to build the capital base to make all the wheels hum.

We have a national advertising campaign to defend the "American dream of home building" which will get off the ground in December, and we do want a broad expansion of capital for home building in America—but this is only the sounding bell. Housing won't get very far on its own, not if it's done at the expense of capital for farmers, or plant managers, or businessmen. This is not a war for the allocation of credit. We must expand capital for the entire economy, and we must have a banking system which can do this.

EIR: Do you have any specific legislation planned yet?
Barnard: Nothing specific yet I can cite; we are still formulating some programs in consultation with Capitol Hill. But we intend to move at the beginning of next year.

California official on Volcker credit policy

Leonard Shane, U.S. League California President, talked to EIR*'s Los Angeles bureau chief, Ted Andromidas:*

EIR: The U.S. League's Executive Director, William O'Connell, charged in a Sept. 22 speech that "it is legitimate to ask whether the Federal Reserve does not have too much power . . . This is an extraordinary and dangerous granting of power to a few unelected officials." What is your view?
Shane: I suscribe to that totally, and I go a few steps beyond. The problem with nonelected regulators is that . . . you elect governors, mayors, and city councilmen on the basis of what they stand for from an ideological and social standpoint. Who's got that opportunity with appointed officials? When we're talking about Volcker's leadership of the Fed, there's substantial question as to whether or not the direction of the nation's social and economic development is being diverted, in the face of what they see as the mechanical aspects of their policy. . . . I think it's a horrible effect to put nonelected officials in a position where they can shape national policy, particularly without public debate.

I think this country is on the road to a major policy change, a long-range move away from our traditional commitment to housing, without any public debate. We intend to force that debate, and one of the ways we feel we have is to persuade the Reagan administration to do a straight evaluative approach. We've been unsuccessful in getting the Carter administration to do that. The corollary is that what the Congress perceives in H.R. 4986 [the Depository Institutions Deregulation Act of 1980] and what Volcker perceives in H.R. 4986 are two different things, and the hearings demonstrate that. Hence the lawsuit, which is led by the U.S. League and others, against the DIDC for having acted outside the scope of legal authority. We're only a few weeks away from the decision at the lawsuit . . . certainly the judge at the hearing, I'm told really grasped the issue.

EIR: In terms of action, are you planning anything else beside the lawsuit?
Shane: We have formed a joint de facto Committee of the California Savings League, the California Realtors Association, and the Homebuilders are joining us, to try to deal with the situation. I don't want to use the word "sneak," perhaps the word subterfuge. But at the moment a lot of things are taking place that are just not being discussed in the public eye. Volcker does not feel obligated to reach into the public arena for his major far-reaching decisions.

EIR: Representative Ronald Mottl from Ohio indicated that if Volcker does not lower interest rates almost immediately, Carter or Reagan should fire him. Would the League propose anything like that?
Shane: I can't answer that question quite that way, but by indirection, I am concerned about Mr. Volcker and his associates, of high influence of like mind, and I'd suggest to you that there are going to be some people high in the Reagan administration like that; Charls Walker moves in the same ideological direction. My complaint is that what they are really doing is realigment of credit allocation in this country for purposes that they deem to be more proper. I'm not even sure they're wrong. I think they're wrong. But my concern is in dealing with your question "Should he be fired?" that there is a major directional change in this cliché of "reindustrialization," which I consider to be absurd nonsense. I could go on at great lengths as to what their scenario is, I think they have considered pursuing directions that are contrary to and not authorized by elected officials. And when that's the case, as with any appointed official, Mr. Volcker should share with many others an early departure, if they go contrary to the policies established by the elected

body politic. I am not willing to concede that the professional managers of our government should be making all the policies. . . . I do not believe in the omnipotence of public officials.

EIR: Do you have a dollars-and-cents estimate of the effect of Volcker's policies on housing?
Shane: It is inconceivable to me as practical and social phenomenon, that any force in the marketplace will force interest rates up to inordinately high levels and keep them there over any extended period of time, given the disaster that would represent, the damage, the destruction in the automobile industry that is struggling just to survive. I cannot imagine any responsible—or even irresponsible—leader saying that we are artificially going to sustain a prime that will not go below 18 percent let's say, for one year. Unthinkable.

There are economists, theoreticians, and academicians who are too theoretical. I don't believe you're going to control inflation with interest rates. It's a policy that has failed; I can't see how Volcker can continue a policy that has failed. Charls Walker said that from his position he did not believe in the special allocation, the special commitment, or funds to housing. I was surprised he got the applause he got. His speech was rather candid, it frightened me. There's a hopelessness that runs through the mechanical academician, the mechanical regulator. They don't seem to realize that out there there are millions of people whose lives they're ruining. . . .

Kathleen Connell recently said that she thinks that the people of the inner cities of the eighties—given the total frustration over housing—in the absence of our moving to solve the real danger, will take to the streets, on the housing issue. I believe that. The issue of the housing industry has to be a public discussion, so that some of the administrators don't run away with the policies.

Legislative strategist concerned about dereg

A special League Committee on Savings Industry Development will be headed by League Vice-President Roy G. Green, to "develop our strategy for working with the new administration in Washington." Mr. Green told EIR:

EIR: As chairman of the Committee on Savings Industry Development, how do you view the prospect of further banking deregulation in the U.S.?
Green: We are extremely concerned about the rush to deregulate banking which has developed in the U.S. The DIDC has rushed the phase-out of Regulation Q much faster than the intent of the legislation.

EIR: Beyond the Deregulation Act, U.S. League Senior Counselor Norman Strunk painted one totally deregulated future for the U.S. on the British-Canadian model, with fully indexed mortgages.
Green: If we are to be deregulated on one side of the balance sheet, with our deposits costs rising, then we must be fully deregulated on the other side, we must be able to lend at deregulated rates. We must go for fully Variable Rate Mortgages.

EIR: But is the entire process desirable?
Green: Our commitment is to housing in America first and foremost. If it can be proven that in a deregulated system, you can sucessfully channel money to housing, I would agree that deregulation works. However, up to now that's not been the case in the U.S., especially because of the way the DIDC rushed us to judgment.

And I'm not sure housing will ever be competitive at 15 to 18 percent mortgage rates under full deregulation. I don't think the consumer can afford such rates for any length of time. It's simply unaffordable.

EIR: What about interstate banking laws, such as the McFadden Act, which some regulators such as Fed Chairman Volcker seek to remove?
Green: While I'm for the free market, there are certain regulations needed in practice to protect the health of the banking system. Full interstate banking would not be beneficial. It would lead to banking consolidation in the hands of a few large banks, which would be bad both for consumers and for the economy, since it would mean reduced service to local communities.

EIR: Senator Banking Committee Chairman-designee Jake Garn told us that the regulators have been implementing many aspects of deregulation without congressional approval. In particular, the Fed's newly approved International Banking Facilities will have a very extensive Electronic Funds Transfer capability which Comptroller Heimann has said could make the McFadden Act obsolete.
Green: I agree with Senator Garn. With regard to interstate banking coming about by default, I was a member of the National Commission on Electronic Funds Transfer established in 1974, and in my comments at the time I expressed concern that EFT would lead directly to nationwide banking for those banks who could afford it on a national level. This, in turn, I warned would lead to the creation of a few "superbanks" which would dominate the system.

EIR: Does the Green Committee have any legislative plans?
Green: We have not developed any specific legislation. We will be studying all these issues in ongoing fashion.

IMF sidesteps U.S. Congress

Approval of the seventh quota increase will have lasting impact on politics in the Fund.

For the first time in the 30-year history of the International Monetary Fund (IMF), the global policy body allegedly founded to uphold stable world monetary relations, a large funding decision has been passed without prior approval by the U.S. Congress.

On Dec. 1, IMF authorities made public the fact that the so-called seventh quota increase, an increase in member contributions, had been passed by the necessary 75 percent of membership votes. As this column goes to press, the U.S. Congress still had not approved the U.S. portion of the increased contribution, which is worth $5.6 billion. Through a series of scheduling manipulations engineered by conservative Republicans, the IMF quota increase had been buried under a pile of paperwork still being processed by the lame-duck Congress.

Since the IMF was founded, the United States has been its single largest contributor of funds, which permitted the U.S. a 20 percent voting share on all decisions requiring a full membership vote. Effectively, however, the U.S. voting share has been more like 40 percent, since prior to this week's developments, approximately 20 small underdeveloped countries always voted in the IMF as part of a U.S.-controlled bloc.

What had occurred was that the 20 or so countries traditionally associated with the U.S. bloc had apparently broken ranks, sent in their governments' authorizations, and allocated to the IMF a funding increase—without congressional approval. The fact that this has occurred throws open a wide range of possibilities about what is going to happen to the IMF—and the U.S. role in the IMF—during 1981.

If the lame-duck Congress does not pass the quota increase, the U.S. voting share will drop to 12 percent. In addition, the IMF will have a lot less liquidity—namely, $5.6 billion, which is the U.S. share of the $25 billion quota rise—than it was expecting.

Late last week, Sen. Daniel Inouye (D-Hawaii) rushed an emergency amendment into the Senate Appropriations Committee to attach the $5.6 billion appropriation to the Continuing Appropriations bill up for vote this week. As Inouye put the finishing touches on the amendment, London's *Financial Times* printed a warning that if the quota increase weren't passed, the IMF would be bankrupt by 1981. Adding to the IMF's straits, the *FT* noted, was the boycott on special loans imposed by Saudi Arabia against the IMF last September as retaliation for the IMF refusal to give observer status to representatives of the Palestine Liberation Organization.

Within 48 hours of the *FT* commentary and Inouye's initiative in Congress, the Tunisian government sent to IMF headquarters in Washington their government's approval of the quota increase. Tunisia controls .16 percent of the IMF's votes; the arrival of the Tunisian telegram pushed the total vote over 75 percent.

Asked by *EIR* what other small countries had sent in approvals in recent weeks, the IMF's Office of External Relations insisted that this information was secret. A Washington thinktanker who has been active in efforts to "reform" the IMF thought the quota had passed, because IMF officials had succeeded in getting out the word to Third World governments that if the quota didn't pass, "there would be no money for loans next year."

Recently, the IMF executive directors approved a highly unusual loan that apparently contributed to persuading traditional U.S.-connected countries to bypass Congress's stalling action. In late November, the IMF approved an unprecedented $1.7 billion to Pakistan, the largest ever to a Third World country.

While this may have helped in giving the impression that the IMF directors were making an effort to be more open-handed in lending policies, the Pakistan loan also generated a degree of panic in some Third World countries: in one swoop, it ate up 15 percent of all available funds in the supplemental IMF facility used specifically to finance oil payments deficits.

Meanwhile, the IMF's managing director, Jacques de Larosière, arrived in Saudi Arabia this week to resume sensitive negotiations on a Saudi multi-billion loan to the IMF. The negotiations are expected to be protracted. Political control of IMF lending policies is up for grabs.

Domestic Credit by Richard Freeman

Volcker goes for broke

Reserves are clamped while rates skid up, licking the economy, not inflation.

Interest rates at 18.5 percent are not at their peak. They will go up further. It is now clear that at the Federal Open Market Committee meeting in November, the Fed decided to enter a new phase."

This assessment by the chief economist of T. Rowe Price investment bank, Ben Laden and other credit analysts, was confirmed by the upward leaping path of the prime lending rate.

On Oct. 1, it was 14.0 percent, and it will be 19 to 20 percent before long.

The key mover of the prime is of course Fed chairman Paul Volcker, who has put the federal funds rate up to 18 percent to make the prime leap higher.

In a speech to the Tax Foundation in New York City Dec. 3, Volcker confirmed market opinion, warning that "the likelihood of a squeeze [on credit] is apparent; we see a taste of it now."

In fact, according to Laden, Volcker's increase in federal funds rate sets off a cycle that will push the prime rate to 20 percent or higher. "The banks can't simply stop at some fixed level and say that is the peak," reported Laden, "because the momentum of the federal funds rate increase pushes them further upward."

The question then is how serious Volcker is in making the higher interest rates cut into economic activity.

After plunging the economy into steep recession with the March imposition of credit controls this year, the Fed then reversed itself—lest the recession get fully out of hand—and pumped reserves into the banking system. Between July 2 and Nov. 5, adjusted bank reserves grew at an annual rate of 11.1 percent. This kept the economy afloat, compared with what would have happened otherwise, but nothing more.

However, within the last several weeks, Volcker has combined his tight interest rates with a policy of slamming his foot on any new reserves going into the system. Since the start of October, adjusted bank reserves (essentially the reserves held at the Fed by commercial banks plus currency held by commercial banks) didn't budge. On Sept. 24 they stood at $51.3 billion, and on Nov. 12, they were $50.4 billion, according to figures supplied by the St. Louis Federal Reserve Bank.

Interest rates are already at 18.5 percent, at a time when the economy cannot sustain the impact.

The soft figures for new housing permits for October (down 4 percent) will translate into collapsed housing starts in November and a rout of the housing market starting this month and January.

The Christmas retail sales season will be decidedly off, and the retail and service sectors of the economy will undergo what happened to the industrial sectors of the economy earlier this year: a big downturn.

What is important is that Chairman Volcker plans to keep credit out of the hands of the productive sectors of the economy into the first quarter of 1981.

"Volcker is out to prove himself," stated James O'Leary, chief economist for the U.S. Trust Company. "Volcker wants to show people that he will knock inflationary expectations out of the system. Right now," O'Leary added, "consumers would borrow at high rates if they thought that inflation would continue. The credit policy will have to bite."

O'Leary also foresees Volcker's policy leading to new foreign investment into the United States, in areas like real estate.

O'Leary is not alone. Many in the U.S. investment community are now championing Volcker's supercharged interest-rate policy in the interest of fighting inflation.

The interest-rate hikes of the last six weeks should give credit-market analysts and investors alike a doubly errie sense of déjà vu, however.

Didn't Paul Volcker promise to wring out inflation in October 1979, and then again when he applied credit controls in March of this year? It didn't work then.

Will simply adding some federal budget expenditure cuts in, say, early 1981 to a tight credit policy do the trick, when twice before such a policy failed?

Not likely. Yet such sheepishness on policy matters by investors has allowed Volcker to pursue his policy. Perhaps the hoary saying of showman P. T. Barnum should be modified: "a supporter of Volcker's policy is born every minute."

Gold by Alice Roth

Reagan's choice: Friedman or Rueff

A proposal to combine a gold standard with Thatcherism can't solve the monetary crisis.

In a Nov. 29 article, *London Times* financial editor William Rees-Mogg proposes that the world's monetary problems can be resolved through a marriage between British Prime Minister Margaret Thatcher's "Friedmanite objectives" and the "gold standard doctrines" of the late French President Charles de Gaulle and his adviser Jacques Rueff. He suggests that a return to gold can be accomplished with collaboration among Mrs. Thatcher, French President Valéry Giscard d'Estaing, and U.S. President-elect Ronald Reagan.

Rees-Mogg states: "Unless the basis of the world's money is itself a commodity of absolute scarcity, it will not be possible to stabilize the price of other commodities of absolute scarcity. Until that stabilization has been achieved, there is no prospect of stabilizing employment or of achieving a recovery of the world economy of more than short duration. In short, to achieve Mrs. Thatcher's Friedmanite objectives, it is the gold standard doctrines of President de Gaulle and M. Rueff which will have to be followed.

"Fortunately, there is now at least a conceivable opening for movement in this direction. The Republican platform, on which President Reagan was elected, had a gold standard clause in it, and several of his leading advisers are pro-gold. . . . A new Bretton Woods to restore gold convertibility to the dollar, the European currencies, and the yen might be a proposal that the new [Reagan] administration would consider. With Mrs. Thatcher, President Giscard d'Estaing and Mr. Reagan in office together, the world has an opportunity to stabilize its paper money on a gold base and bring the great inflation to an end."

In fact, there is no common ground between Rueff and Milton Friedman. The Eurodollar market, or market for dollar deposits held outside the boundaries of the U.S., now stands at \$800 billion—representing \$800 billion in foreign claims against U.S. assets.

Rueff would have recognized that, given this magnitude of U.S. indebtedness, Friedmanite monetary policies (including those based on linking monetary expansion to the limited supply of physical gold) would prove fatal to the world economy and to the dollar. Rees-Mogg's proposal for a "gold standard" would bring about a devastating financial panic in which much of the international banks' Eurodollar holdings would be wiped out, leading to a world depression much more severe than that of the 1930s.

On the other hand, the establishment of a new official gold price of, say, \$700 an ounce, would mean that the dollar was backed up by approximately \$186 billion in gold held by the U.S. Treasury—creating an upsurge of confidence in the American currency on world markets. That confidence could be sustained only if the U.S. undertook to match its paper liabilities with a large-scale expansion in industrial and agricultural exports, particularly to newly industrializing countries in the Third World. A proposal similar to this latter idea was advanced by Charles de Gaulle in 1965, on the advice of Jacques Rueff.

The confusion between Friedmanite and Rueffian economics has recently been a problem within the ranks of Reagan's economic advisers, some of whom (for example, Louis Lehrman) seem to believe they can combine elements of both. In a Nov. 30 interview with the *New York Times,* Rep. Jack Kemp (R-N.Y.), a Reagan adviser, stated: "I think eventually, if we're ever to bring inflation to a halt and have a unit of account—that is, a dollar on which the people can depend as an honest dollar—then it's going to take some form of a commodity standard, some form of a monetary standard, some policy whereby the federal government through the central bank guarantees the purchasing power of the dollar by making it convertible into a fixed amount of gold or another precious metal. . . . As Louis Lehrman has pointed out, throughout history nations have had to resort to some monetary standard in order to stop inflation."

Kemp's statement is commendable, except for the reference to a "commodity standard" which bears too close a resemblance to Rees-Mogg's call for a monetary system based on "absolutely scarce commodities." The new monetary standard should be a "productive capital-formation standard," à la Jacques Rueff, period.

Agriculture by Susan B. Cohen

Pension funds making a land grab?

Investors claim it's productive; farmers fear a speculative price run-up in farmland.

Several years ago the Continental Bank of Illinois launched a bold new program for pooled funds investment in American farmland that set off a firestorm of opposition among farm groups, inspiring congressional investigations and the intervention of Secretary Bergland. The Ag-Land Trust had already received IRS approval for its activities when Continental management decided the political heat was too costly and quietly buried the entire venture.

Today Continental is watching with interest as a new venture in pension-fund investment in farmland gets off the ground. The American Agricultural Investment Management Company, based in a North Shore suburb of Chicago, is well on its way, according to its president, William Cotter, who has taken the offensive in the press and public forums in behalf of his controversial investment strategy.

Cotter has labeled his opponents the "Jane Fondas of agriculture," and insists that the so-called family farm is not being destroyed but has rather been "transmuted," largely by the advance of technology, since the Civil War, and that this process has involved the use of greater and greater amounts of capital. Cotter cities United Nations statistics showing a doubling or more of world food needs by the year 2000. If it takes $157 billion in debt to produce the current output, reason Cotter and the American Bankers Association, then it will take about three times that, or $500 billion, to meet production demand in 2000.

That, according to Cotter, is where the particular needs of the nearly $600 billion in pension funds comes in. They will supply the capital that is not internally generated or otherwise readily available to farm producers, because the funds are looking for a long-term, stable investment.

Furthermore, says Cotter, since pension funds are interested in long-term appreciation of land values, or capital gains, and since that depends on the quality and productivity of the farm, the funds will not stint on investments in land development and soil management. Cotter maintains it is for that very reason that AAIMC does not do any cash leasing, but rather share-leasing, where the tenant farmer is "a partner."

Cotter insists that this also provides a means of entry into farming for many young farmers.

It is well known that with farm returns at about 3 to 5 percent and mortgage rates at 12 percent or more, that an owner-operator is losing 8 percent a year on his purchase of farmland, or, say $8,000 a year on a $100,000 investment, until returns rise. He may have to wait as long as 8 or 10 years. In fact, by some estimates, as much as one-third of American farmland is already owned by nonfarmers (these are principally retired farmers, rural residents, and estates) and often rented by practicing farmers to augment the acreage they own. It is common practice for owners of large land holdings to rent out hundreds of thousands of acres for cultivation, to spread out production costs and take advantage of economies of scale.

Yet every major farm organization has raised its voice in opposition to the type of pension-fund investment Cotter is promoting. National Grange Master Edward Andersen blasted the AAIMC at the Grange's annual meeting in Cedar Rapids several weeks ago, charging that such use of pension funds would drive the price of farmland so high that farmers couldn't afford to buy it. In an official statement Nov. 21, the American Agriculture Movement stated its opposition to the plan.

The National Farmers Union (NFU) argues that the sheer volume of capital the pension funds wield gives them the ability to remove the farmland market entirely from farm and rural residents who would be compelled to make a living off the land they bid for. Attributing the shortage of capital in the farm sector to the Federal Reserve Board's high interest-rate policy and the fact that "from time to time" farm prices and incomes are so low it is difficult to borrow capital, NFU spokesman Alan Burke told the *Chicago Tribune* on Nov. 16 that the pension funds could "create a whole new generation of sharecroppers." Even the staid American Farm Bureau Federation has come out editorially against the scheme.

World Trade by Mark Sonnenblick

Cost	Principals	Project/Nature of Deal	Financing	Comment
NEW DEALS				
$35 bn.	Cuba from U.S.S.R.	Five-year $35 bn. trade and aid deal signed. Represents a 50% increase over 1976-80 period. Includes 880 kw. nuclear power plant, 1.3 mn. tpy steel plant, and reconstruction of central railroad and 34 sugar mills.	TASS says Cuba will repay debts to Soviets between 1986 and 2011 at no interest.	
$4.5 bn.	Qatar from West Germany	A consortium led by BASF, the world's largest chemicals group, is negotiating a $4.5 bn. liquefied natural gas project in Qatar. Includes offshore facilities, LNG plant and $2 bn. LNG tanker fleet.		Qatar has made no commitment.
$1.4 bn.	Australia from Japan/others	Eurodollar financing is being arranged for Woodside Petroleum's ambitious natural gas exploration project 130 miles off Australia. Gas will be liquefied on shore and shipped to Japan, if all goes well.	Spread expected to begin at about 2% over LIBOR and decrease as project advances.	
$377 mn.	U.S.S.R. from Canada	Canada has signed a deal to sell another 2.1 mn. tons of wheat and barley to U.S.S.R. during current crop year. Canada now ignoring Afghan grain embargo.		Canada and Australia angry at big 4 yr. U.S.-China deal.
	India from U.S.S.R.	Development of 10 mn. tpy coalfields at Jayant open pit and modernizing of underground mines; manufacture of coal equipment in India.		Deal signed.
	India from U.K.	Britain has offered to help four large underground coal mining projects producing 7 mn. tpy of fuel and metallurgical coal. India also negotiating with France, Poland, and West Germany.		India starting 41 coal projects worth $867 mn. to mine 38 mn. tpy.
$100 mn.	East Germany from West Germany	Krupp has won contract to build and equip steam-generating plant as part of conversion of South Jena power station from oil to coal.		
CANCELLED DEALS				
$405 mn.	China from Japan	China has "postponed indefinitely" two 300,000 tpy ethylene plants already under construction and is expected to cancel $183 mn. contracted plants using ethylene as feedstock. Also scrapped was $22 mn. joint venture with Japanese electrical company.		Part of systematic contract shedding.

The Northeast drought hoax

Leif Johnson examines rainfall levels in New York and New Jersey, reservoir capacity, and ulterior motives.

Crisis-weary New Yorkers are being told by New York City Mayor Edward Koch that the city faces the worst water shortage since the severe 1961-1966 Northeast drought. City reservoirs are at 36 percent of capacity while in neighboring northern New Jersey, the Hackensack Water Company system supplying 850,000 residents is down to 20 percent of capacity or a 30-day supply.

Last week, Mayor Koch ordered that restaurants may not serve a glass of water unless the customer demands it and warned that the third and final phase of a drought emergency may be implemented. This would shut down auto washes, send building inspectors into homes, businesses, and industry looking for leaks, and institute a campaign to reduce water usage.

On Sept. 27, New Jersey Gov. Brendan Byrne ordered a full emergency for the state's seven northern counties, stipulating a 25 percent cut in water consumption and limiting individuals to 50 gallons of water per day. Present per capita consumption is about 150 gallons.

The media campaign to reduce consumption has included a *New York Times* picture of a woman bathing her three-year-old daughter in the waste from her washing machine, and frequent stories attacking industry for failing to cut its use of water.

But there is no drought in either New York City or northern New Jersey. Perplexed citizens read in daily newspapers the figure for total rainfall for the year. On Nov. 25, halfway through a storm, the year's precipitation in New York City totalled 41.8 inches. Average yearly rainfall is 44.9 inches, which means that in the unlikely event of no rain or snow in December, the city would be short a statistically insignificant 3.3 inches.

Nonetheless the media continue to publish scare stories about the lack of rain. In a full-page article with large diagrams, veteran *Times* city reporter Peter Kihss states that as of Sept. 30, 1980, the city had received only 37.8 inches. "This," adds Kihss, "was nearly as low as the 37.3 inches received in the 12 months ending in September 1973, which heralded the last drought emergency."

But New York City water officials point out that Sept. 30 is never used to evaluate the water supply since it follows the normally dry summer. Officials use June 1 as the date when they expect to have reservoirs at or near 100 percent capacity. On that date this year, the New York City reservoir system was at 98 percent of capacity.

New York's water system is designed to accommodate a five-year drought like the one in the early sixties. The 37.8 inches of rainfall cited by Kihss reflected the fact that this was one of the driest summers in New York history, as the *Times* made front-page note of two months ago, but such short-term fluctuations should have no impact on the water supply.

Although there is no drought in the New York-New Jersey area this year, nor in the immediately preceding year, New Jersey Governor Byrne is predicting a drought next year. Byrne told the state legislature Nov. 24, "We're in tough shape, and the real crunch will come next summer, not this winter." A similarly unexplained prediction was made by New York's deputy chief engineer of watersheds, George Mekenian, who told reporters on Oct. 31, "We've had about as severe a lack of precipitation as we've ever experienced in the first year of a drought."

Water supply expanded

Despite such mystical pronouncements, the fact is that the New York water supply system is underutilized. In 1967 the city brought a new reservoir into the system, adding 14 percent to the capacity, and built a pumping and filtration system to bring 100 million gallons a day in from the Hudson River. The Hudson River facility, which could supply 7.5 percent of the city's daily supply, has never been used and city officials claim they have no plans to put the equipment in shape to supply water.

Water consumption has been rising at about 7 percent a decade, according to New York City water officials, due to greater use of washing machines, dishwashers, air conditioners, and lawn sprinklers. But population in the city is declining, and it is furthermore impossible to tell how much water is lost in broken mains and abandoned buildings. The city's actual water needs are therefore difficult to estimate, but the water supply has increased and can be substantially further increased.

New Jersey's Governor Byrne is using the crisis to abolish the 70-year-old Water Policy and Supply Council and to enhance the powers of New Jersey's Environmental Protection Agency, headed by Mrs. Jerry English. Politically very close to the governor, English is a leading advocate of putting the New Jersey economy onto a recreational and gambling base rather than an industrial base, and has been a leading spokesman for banning any development of New Jersey's Pine Barrens.

In January 1977, Governor Byrne ordered industrial production cutbacks during that year's natural gas crisis. Since Sept. 27, Byrne has been demanding that all industry reduce water use by 25 percent, even if production suffers as a result.

Byrne is also increasing his crisis management control of the state in conjunction with federal crisis-management personnel. On Oct. 19, during a campaign sweep of the state, President Carter announced a $6 million emergency appropriation to the state to be administered by the Federal Emergency Management Agency.

Another objective of the water hoax is to create the preconditions for passage of New York Sen. Patrick Moynihan's water bill which would continue Carter's "hit list" policy of blocking Western water projects. Under the Moynihan bill, there would be two funding "tracks" for projects, one maintaining the traditional projects, the other defining water projects to include urban flood control, water mains, and reservoirs. The latter track would be funded in block grants to urban areas, especially in the Northeast, and could be used at the discretion of the cities.

Federal tax dollars have been allocated only in areas where the government opts for agricultural and industrial development, but the local tax base is too small to bear the water costs. With the ruin of the Northeast's industry, the tax base for water improvements has eroded, and Northeast versus Western sectional interests can be pitted against one another.

With the Republican sweep in the Senate, however, Patrick Moynihan will no longer head the Senate Water Committee, so the potential for this sectional conflict is diminished.

One of the most perplexing questions in this hoax is where all the water went. There was no drought, no one can account for any extraordinary water use, yet in fact, the reservoirs are at drought levels. The unexplained shortage in Northern New Jersey and New York is estimated to be as high as 100 to 150 billion gallons. This is about 100 days' supply for New York City.

New Jersey political experts have suggested that some of that water may have been intentionally released to create the crisis. In August 1975, the Trenton, New Jersey, water supply was flushed into the Delaware River after a Three Mile Island-type accident. Two valves were simultaneously, accidentally opened, and for three days the city had no water. Brendan Byrne put the city under emergency control, and National Guardsmen stood watch over fire hydrants as residents lined up with pails to obtain cooking water.

Business Briefs

Construction

Japan resumes projects in Iraq

Japan's heavy machinery firms are preparing to resume construction and engineering projects in Iraq, according to the Dec. 2 issue of the business daily *Nihon Keizai Shimbun.*

Representatives of the firms traveling to Iraq concluded that war damage is not so bad as had been feared, the continuing war poses no physical danger, and Iraq will help shoulder the increased costs. A final decision is expected soon.

Iraq is inviting such firms as Mitsubishi and Marubeni to not only resume their ongoing projects, but to bid for new contracts in cement and other industrial plants. Iraq accounts for 30 to 40 percent of Japan's total plant exports.

Technology Transfer

Japan-Mexico economic cooperation revives

The Japanese government is stepping up its economic cooperation in line with Mexico's development plans in an apparent reversal of the rebuff given the Mexicans this autumn. The Japanese press reported Dec. 2 that Tokyo has agreed to lend Mexico the yen equivalent of $90 million for railway electrification. This follows a $150 million investment in port expansion at Altamira by a Mitsui-led private consortium.

During a high-level Mexican delegation's visit to Japan in mid-October, the Suzuki administration rejected Mexico's proposals for accelerated economic cooperation while requesting increased oil shipments from Mexico. Japan's previous cooperation was limited to the Las Truchas steel project. Mexico replied that only nations aiding its development would receive more oil.

Press reports indicate that fears of Middle East instability helped change Japan's mind. In addition, with Japan's consumer durables facing increased protectionism, Japan hopes to maintain high export levels through greater sales of plant and equipment.

Agriculture

Reagan team begins USDA housecleaning

"I would suspect that the new administration will put in people who won't take the same view as Carol Foreman and her crew," C. D. Van Houweling, lobbyist for the National Pork Producers Council and member of the Reagan transition team responsible for the Food Quality and Safety Service (FQSS) of the U.S. Department of Agriculture told the *Washington Post* last week. The transition team, under the direction of former American Meat Institute president Richard Lyng, apparently will reverse the environmentalist, consumerist course set by the Carter administration and Secretary Bergland for the U.S. Department of Agriculture.

According to the *Post*, Van Houweling's request for option papers from career officials on regulatory matters before the FQSS was countermanded by Undersecretary for Food and Consumer Affairs Carol Tucker Foreman. The attack on the use of nitrites in meat curing by the USDA under Foreman, based on a fraudulent study, cost the pork industry more than $1 billion this year.

U.S. Auto

Iacocca attacks interest-rate climb

Chrysler Corporation chairman Lee Iacocca held a press conference Dec. 4 to discuss the impact of high interest rates on the auto industry. He stated that Chrysler considers a prime rate of 18.5 percent "too high," calling for a 12 percent level instead.

He announced that Chrysler will give a 6 percent rebate on all purchases of 1981 models. "We can't change the prime rate," he said, "but starting today and continuing until Jan. 20, Chrysler Corp. will make up the difference between what the cost of credit for a new car should be and what it actually is." The rebate will be a cash allowance to any purchaser who has used a commercial loan to finance the purchase.

Iacocca indicated that he expects the prime rate to fall to the 12 percent level after Ronald Reagan is inaugurated as President.

In a related development, government officials confirmed *EIR*'s 1979 prediction that the Volcker policy of high interest rates would aggravate inflationary budget deficits. Treasury Secretary G. William Miller announced that the deficit will be $50 billion; congressional sources estimate that some $20 billion of that is due to the rise in interest rates, which increases financing costs on federal floating-interest-rate bonds.

World Trade

China's strategy in growing turmoil

Peking's foreign trade strategy is in trouble, with major editorials in the Chinese press indicating that problems are more serious than most Westerners had believed.

The public eye focused this week on China's abrupt "postponement" of a $200 million ethylene plant, an expected cancellation of an $180 million plant complex to have used the ethylene, and cancellation of a $180 million acrylic plant and a $22 million refrigerator plant, all from Japan. This follows the "indefinite postponement" of a $2,2 billion deal with Nippon Steel for the second phase of the mammoth Baoshan complex.

The usual explanation for all this is that China lacks foreign exchange; Vice-Premier Gu Mu has informed a cabinet-level delegation from Japan that China's overall oil production will drop in 1981, so that export goals cannot be met.

Yet some of these plants would have produced synthetic textiles for exports. One wonders why China cancelled imports for such projects while importing 400,000 wristwatches and 300,000 TVs from Japan. The need to keep the urban workforce calm is definitely a factor.

Recent editorials in the *People's Daily* indicate that "for many light industry products" the major question "is raw materials, energy resources, and production quality." A Dec. 2 editorial comments: "With regard to importation of large items from abroad, we must seriously study the balance of payments, the country's ability to produce the auxiliary equipment, and whether the goods to be produced can compete on the world market."

Foreign Exchange

Will the dollar be strong in 1981?

A Conservative member of the British parliament challenged Prime Minister Margaret Thatcher on Dec. 4 to say what she would do if a large inflow of hot funds were to pour into sterling sometime during 1981. Thatcher merely replied that she would not impose exchange controls against inward money flows.

More interesting than Thatcher's response is the fact that the British parliament would openly debate the prospect of an inrush of funds into sterling, an eventuality which could only occur under circumstances in which the U.S. dollar suddenly weakened.

As *EIR* reported last week, leading British bankers have recently argued that high interest rates alone cannot convince the foreign exchange markets that the dollar is strong.

Chicago and Midwest business representatives have brushed off the evaluation that the dollar is heading for a 1981 crisis, either due to continuing high rates, or a sudden collapse of confidence if rates are brought down. "Reagan's economic package—the whole thing," a Chicago bank economist stated, will back the dollar up. If Reagan's package does not succeed in stemming inflation, "then perhaps we'll have cause for concern."

Capital Formation

Tax-exempt savings gets strong support from S&Ls

Savings accounts up to $2,000 as well as multithousand-dollar certificates of deposit related to housing should be exempt from government taxation, according to speakers at the recent 88th Annual Convention of the U.S. League of Savings Associations.

Several speakers received extended applause for proposals to encourage savings as the base for growing capital investment. The prospective Senate banking chairman, Utah Republican Edwin Garn, urged that even a $500 exclusion from federal taxes on savings interest and dividends is not sufficient. Congress should enact "at least a $1,000 or $2,000" exclusion, since "tax decreases are one way to solve the problem of inflation and make us more productive."

A related proposal was made by outgoing Federal Home Loan Bank Board Chairman Jay Janis, who recommended that a new tax-exempt housing certificate to ensure adequate funds for housing be created. Like a certificate of deposit, the bond would be issued in minimum denominations of $10,000; funds obtained at tax-exempt rates would then be earmarked for below-market housing loans which associations would provide to borrowers with family incomes up to 120 percent of that area's median income.

Similar tax-exempt CDs exist now for municipal borrowing. The chief difference is that most municipal tax-exempt instruments are related to debt refinancing.

U.S. League outgoing president Edwin Brooks sees the creation of tax-exempt savings instruments as a goal the housing industry can win in 1981. Brooks told the U.S. League membership, "We can win political battles such as the one on withholding of savings account taxes, this year."

Briefly

● **THE JOINT ECONOMIC** Committee in Congress is holding a conference on economic policy in Washington during the week of Dec. 8, and expects about 100 participants, including Alexander Haig, Richard Allen, and Lane Kirkland.

● **CITICORP** announced Dec. 4 it had leased office space in the Los Angeles Wells Fargo building. Several Citicorp subsidiaries, including Citibank International, an industrial credit division, and a real estate division, will be represented there. This follows Citicorp's move of its credit card operations to North Dakota, all despite laws against interstate banking.

● **SWITZERLAND** and Spain reported this week that their central banks were reviewing procedures to revalue their gold holdings. Swiss official holdings are currently valued at $75 per ounce, Spain's at $42 per ounce. In both cases, revaluation would help stabilize government debt and money supply.

● **WILLIAM FRENCH SMITH,** recently talked of as Reagan's choice for attorney general, is a defendant in a lawsuit launched by California environmentalists and advocates of stoop labor (and backed by Agriculture Secretary Bergland) against the program at the University of California at Davis for research in agricultural mechanization and development of pesticides. The suit aims to cut off all federal funding for such research.

● **HARE KRISHNAS** received a stinging rebuke from New York Judge Howard Munson, who ruled that ". . . Krishnas are engaged in . . . accosting, deceit, misrepresentation, and fraud. . . ."

Selling America's cities on the black market

by David Goldman

Some little-noticed new items portend the most dramatic changes in American banking and America's international position since the founding of the Bretton Woods system in 1944. In the fight over the composition and policies of the incoming Republican administration, groups like the Twentieth Century and the Heritage Foundation have proposed the re-making of American cities on the model of the British Crown Colony of Hong Kong.

What Twentieth Century Fund chairman Murray Rossant described to *EIR* as a combined banking, urban, and real-estate investment program for the United States is identical in principle to the International Monetary Fund's treatment for Argentina during 1978. After a spectacular devaluation—recommended by the International Monetary Fund—Argentina became Latin America's bargain basement, attracting big spenders on the basis of the cheapness of local goods and labor.

What the United States has to put up for sale, against several hundred billion dollars of net foreign liabilities, these groups are saying, is the land and population of its major cities. Half the American banking system moved, during the past 15 years, to the so-called offshore market, a $1.2 trillion monster. As this publication has argued in the past, the size and character of the Eurocurrency market based in London and a dozen Caribbean tax havens are a primary cause of the weakness of the American dollar. Now the plans favored by the cited think tanks and promoted by the New York Clearing House, the New York state legislature, and such potential cabinet members as Citibank's Walter Wriston would bring the offshore markets back onshore.

From the banking standpoint, the implication of the proposed "International Banking Facilities"—Cayman Islands banking at home—is regulation-free business for the major commercial banks with access to international funds, and the capacity to install the electronics funds transfer systems required to turn funds over on a few seconds' notice. But the proposals go much further: once the banking operation is brought onshore, the mass of

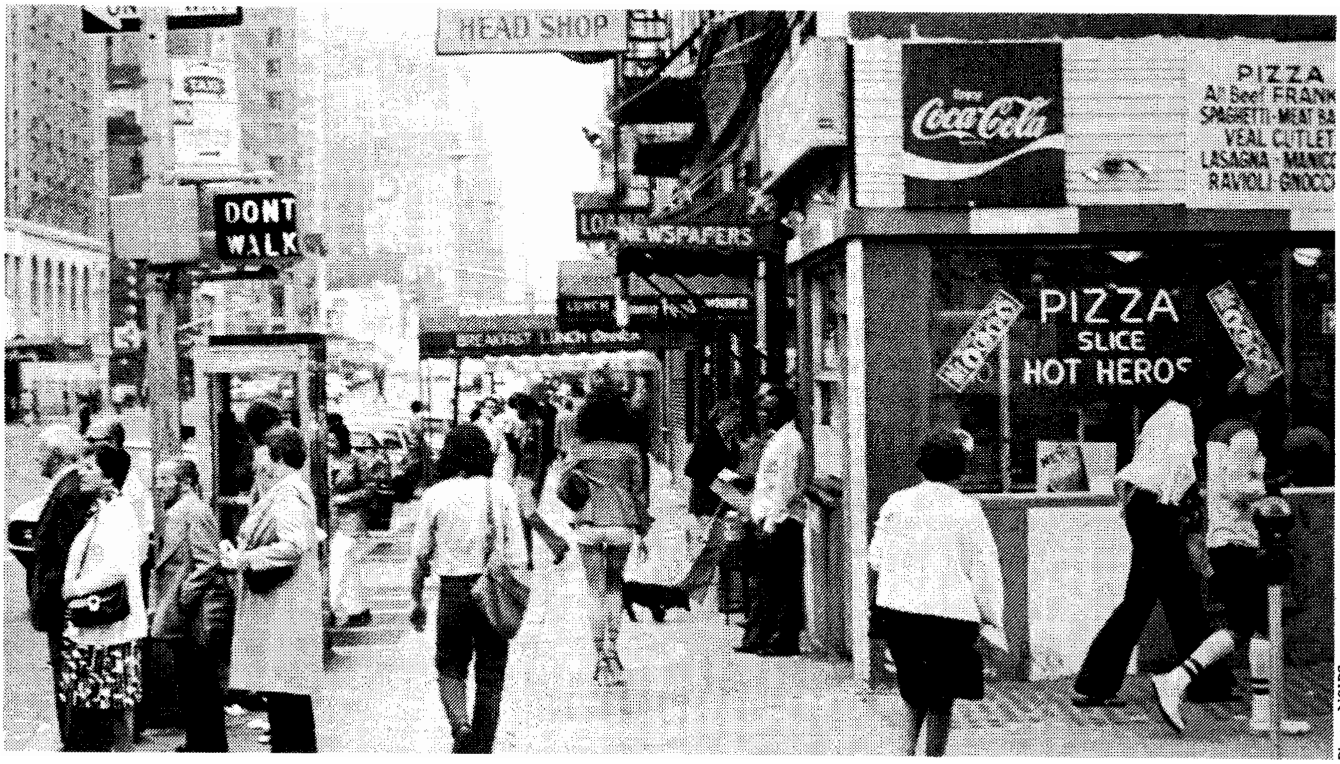

Photo: NSIPS

Eurodollar deposits will flow into purchases of urban real estate, attracted by liberalized tax codes and the elimination of such obstacles as rent control. The ultimate purchase-worthiness of urban real estate, they conclude, is a matter of using the most depressed parts of the urban population in low-wage light industry.

Hong Kong 'exemplar'

This is how the island of Hong Kong became "the modern exemplar of limited government and free markets," in the glowing words of Reagan adviser Milton Friedman. Hong Kong real-estate market conditions show how puny the boomlet in land values in, for example, New York City has been during the past three years: Luxury apartments in the colony rent for $10,000 per month and up, and a junior executive of a commercial bank resident in Hong Kong will count on spending $50,000 per year for modest accomodations.

Hong Kong also has the highest crime rate of any major city in the world; education and literacy levels that compare miserably with, for example, Taipei; the world's most corrupt body of law enforcement (official estimates put the annual volume of bribery of police officers at $1 billion), and a cash flow dependent on an estimated $10 billion per annum in narcotics-related revenues.

As we show in this Special Report, the implications of the Twentieth Century Fund and associated groups' package is the transformation of American cities into a vast black market—the basis of the Hong Kong eco-

In this section

nomic miracle, when all is said and done.

The $1.2 trillion Eurodollar markets, unregulated by any central bank, are the repository for an annual flow of narcotics revenue alone of $200 billion. The circuit between street sales of narcotics in New York laundered through the Caribbean offshore markets, to the massive volume of foreign purchases of New York real estate by narcotics operators, is already much tighter than most observers realize.

A few cities in the United States—Miami is the most frequently cited—are running into the same problem that has plagued the economies of developing countries: most of their economy is running into "extralegal" channels. Conservatively estimated, 40 percent of the economies of India and Brazil, and 80 percent of the economy of Colombia, are accounted for by the black market. In the case of Italy, the figure is close to 25 percent.

Unique trap

If the United States falls into the black-market trap, it will be unique, and not merely because the United States is still the West's premier industrial power. It will have been accomplished from the top, calculated in advance and presented as a positive social program! Advocates of the Hong Kong program are as cynical as Milton Friedman is about the consequences of the plan, although not all are as vocal in support of heroin legalization as Friedman is. They are almost boastful that the tide is moving against all regulation, down to the capacity of the monetary authorities to distinquish black money flows from legitimate transactions.

And their ultimate argument is that the virtual bankruptcy of the dollar, the amassed hundreds of billions of dollars of foreign liabilities, make their solution "inevitable." Like Argentina, America will have to sell its assets to the foreign money pool that holds its IOUs.

At first reading, much of what the Hong Kong advocates propose is fantastic. Even the adoption of the real-estate side of this program by the Reagan Urban Policy Task Force, and the endorsement of the banking features by the Federal Reserve Board of Governors on Nov. 19, seem many steps away from the transformation some Reagan advisers are proposing. It does not seem credible that the President-elect himself would agree to it.

As in Argentina, these measures are only possible under advanced crisis conditions.

EIR has emphasized the dangers to the American dollar should Reagan act outside his small margin for error. These dangers are clearly evident to scavengers in London and elsewhere. Therefore the danger of crisis is real, and the Hong Kong plan, however grotesque, is not to be dismissed.

FREE BANKING ZONES

Laundering offshore funds onshore

by Kathy Burdman

The Nov. 19 approval by the Federal Reserve of the major New York banks' proposal for International Banking Facilities (IBFs) free banking zones will thoroughly transform the U.S. banking system—much as casino gambling legalization has transformed the economy of New Jersey.

Under free banking zones, much of the activity now conducted offshore in the $1.2 trillion Eurodollar and other offshore markets will be brought back onshore. Included, banking and electronics funds transfer experts tell *EIR*, will be most of the laundering through free banking offshore of the more than $200 billion annual revenues of the international drug and gambling trades, of world terrorists, and the rest of the underground international "black economy."

The results: a dramatic increase in narcotics traffic and other illegal activities in the U.S., as these multibillion-dollar businesses are encouraged by tax and legal incentives which allow them to launder the proceeds of illegal business right here in the U.S.

"International Banking Facilities will transform the U.S. banking system through the introduction on a nationwide scale of Electronic Funds Transfer banking," M. J. Rossant, director of the Twentieth Century Fund commented. "The same kinds of transactions now cleared freely in the offshore banking markets through Electronic Funds Transfer will move onshore."

Federal authorities will find it next to impossible to detect just what sort of transactions are being "freely cleared" due to the technology of Electronic Funds Transfer (EFT) used in the International Banking Facilities, Mr. Rossant continued. "The problem with the [bank] regulators is that their job will become much more difficult. Regulators are always a step behind. With EFT, there is the possibility that they will fall two steps behind.

"The possibility of the kinds of funds transfers, both geographically, and in volume, which can be done with EFT are fantastic. There are some bankers who can play EFT like a virtuoso plays the organ—and the regulators will be lost. The banks will do things they will never catch up with."

EFT "will change the complexion of world financial dealings," U.S. Comptroller of the Currency John Heimann, a major proponent of IBFs, told a Washington audience last month. "EFT will render geographic restrictions on financial services irrelevant and artificial without legislation by Congress." "EFT will lead to the creation of a few 'Superbanks' which will dominate the system," warned Roy G. Green, vice-president of the U.S. League of Savings Associations and former members of the 1974-77 National Commission on Electronic Funds Transfer.

Mr. Rossant is currently forming an elite Twentieth Century Fund Task Force on Banking, to be headed by Mr. Heimann, to study this electronic banking "transformation." To understand what it will mean in the U.S., we must examine what is already afoot out in the offshore markets.

What is the Eurodollar market?

Let us look at the actual deposit and lending process so conducive to money laundering now going on in the London Eurodollar market, the center of the world's offshore dollar market. The Eurodollar market and offshore dollar markets were generally created in the first place as "outlaw" bank markets. They are banks in which dollars were deliberately deposited outside the U.S. to avoid federal banking regulations.

First, what is evaded is the U.S. bank regulatory system of the Fed, the Comptroller, the FDIC, and the IRS, whose bank inspectors can in fact detect quite a bit about who a bank's depositors are, and what happens to their funds. More important, however, Eurodollar market banks escape U.S. Fed reserve requirements. One of the most important safety features of the traditional U.S. banking system, reserve requirements effectively limit the amount of fresh credit private commercial banks can create at will. In the United States, banks are required to set aside an average 12 percent of their deposits on reserve at the Fed, earning no interest, as a fund from which to pay depositors in case bank loans go bad. Since it costs the banks money to maintain these funds idle, which would otherwise earn interest, reserve requirements effectively limit banks to creating new deposits in amounts about 2.5 times more than new credit issued by the Fed.

In the Eurodollar and other offshore markets, this so-called bank multiplier rockets to six times and over, because there are no reserve requirements and banks can create new deposits at will.

Since the Eurodollar market was fostered by the 1963 Interest Equalization Tax, which put a tax on U.S. bank lending abroad and thus encouraged banks to hold dollars offshore to avoid taxes, over $200 billion in net deposits have been built up in the Eurodollar system, according to the estimates of Federal Reserve Board Governor Henry Wallich. This $200 billion includes legitimate deposits by U.S. corporations abroad and by foreign governments such as OPEC members who fear U.S. expropriation.

It also includes the "operating balance" maintained as cash deposits by the world narcotics trade in the Far East and Mideast; deposits by the international casino gambling industry; by the Sicilian Mafia; by international terrorist organizations such as the West German Baader-Meinhof gang and their European-wide collaborators; and by most of the world's illegal businesses.

The corporations of the black economy have put their deposits in the Euromarket in the first place because there they can be laundered. Because these banks have no reserve requirements, they have been able to create, effectively, an additional $1 trillion in offshore bank deposits on the $200 billion base. Over $500 billion in "interbank" deposits have been created by banks' creating money to lend to each other. Citibank London, Ltd., for example, creates a book credit (loan) to Standard Chartered, Ltd., which then deposits the loan as its own deposits. On this basis, Standard Chartered can create more loans, in pyramid fashion.

The same goes for the account of a heroin transshipper at the Hong Kong offshore dollar market. The Hong Kong refiner and warehouser may deposit his receipts in the HongShang, of $10 million, based upon which the bank will make him a perfectly legitimate loan for a new Kowloon condominium. This principle extends to London and the Caribbean dollar markets as well. A container-cargo front, shipping large parts of the Far East heroin trade into the North American West Coast, may deposit its $100 million annual proceeds in an otherwise legitimate industrial account at the Royal Bank of Canada in Nassau, and receive an equally legitimate loan from the Royal Bank to purchase $600 million in Florida real estate. An Iranian opium merchant may deposit his earnings in an otherwise legitimate account for his carpet export business at Citibank London, Ltd. and receive a loan for a legitimate purchase of a New York high-rise.

The onshore flows

Thus funds from the offshore side of the drug industry, that is, the *producers'* side outside the United States, currently find their way into the country. Inside the United States, the medium of Electronic Funds Transfer has meanwhile been developed to a fine art by the big businesses that control the drug *consumer market*, in order to launder their sales profits outside the country into the Eurodollar market.

"The thing every company is afraid of is that it will—inadvertently—become a host for some sort of criminal operation," a senior executive of one of New York's largest financial houses told the monthly magazine *War on Drugs.* "But it can be very hard to track

What are International Banking Facilities?

International Banking Facilities (IBFs), free banking zones, were first proposed by the New York Clearing House Association, the trade organization of the top 12 New York commercial banks, led by Citibank and Chase Manhattan. In a July 14, 1978 submission to the Federal Reserve entitled "International Banking Facilities in the U.S.," the New York banks called for three basic new conditions to establish free banking:

1) The removal of reserve requirements on all deposits in IBFs, exempting the banks from safety reserves against bad loans, which would allow the IBFs to greatly multiply credit expansion.

This requires lifting Fed Regulation D, which mandate reserve requirements.

2) The removal of all interest rate ceilings and time deposit requirements for IBFs, to allow interest rates to float up with international rates.

This requires lifting Fed Regulation Q, mandating interest rate ceilings.

3) The freedom of IBF profits and deposits from federal and state taxes, the same as offshore dollar deposits which are already totally tax-free.

In practice this requires no federal legislation, simply an agreement by Congress not to impose taxes on the new IBFs. The Fed has already obtained this.

State legislatures are being encouraged by the New York banks to remove their state tax laws, with promises that new IBFs will bring new jobs into states that do. New York's Gov. Hugh Carey in July 1978 moved immediately to rewrite the New York tax laws as asked by the New York Clearing House the same month.

IBFs are supposed to handle only international deposits and loans, that is, only engage in business now done offshore, so as not to compete with domestic U.S. banks for the economy's shrinking loan business. In practice, they will do large amounts of loans to domestic companies, using the fiction of U.S. corporations' foreign subsidiaries' books.

Since these three conditions require no congressional action, IBFs can be imposed unilaterally by the Federal Reserve.

down, what with the pressure to keep down the costs of operations. You just can't check into every transaction.

"There are certain sorts of accounts," the executive said, "which are virtually foolproof means of moving illicit funds. The most reliable is the type of account maintained by someone dealing in the financial market, buying and selling large amounts of securities every day. Tens of millions could go through the account every day, even if the balance at the end of the day is only a few thousand dollars. No one would notice an extra million dollars passing through."

In fact, it is the huge New York computer owned by the New York Clearing House Association, the trade association of the top 12 New York banks, which now utilizes EFT to clear funds, out into the Eurodollar markets, EFT experts have told *EIR*. The New York Clearing House computer, owned by Citibank, Chase, and their partners, called the Clearing House International Payments System (CHIPS), is a Burroughs large-scale dual processor B-6700 located at the New York Clearing House in lower Manhattan.

As the name baldly implies, CHIPS is already at the center of a rather large international crap game. CHIPS is the EFT mechanism which now links the New York banks to their Eurodollar branches and to all banks in the world's offshore markets, such that it virtually makes the New York banks part of the offshore market already.

Worse, according to EFT expert Robert Morris at AT&T's Bell Laboratories, the only possible way the over $100 billion in drug money that leaves the U.S. annually could do so is through such a system. An owner of illegal funds such as that cited by the banking executive above, builds up a certain transaction balance at a CHIPS-member New York bank, but if the account were to grow too large, the bank would have to notify the IRS, which would audit the source of funds.

The excess funds, then, instead of being built up, are transferred out through the "red area" of the bank's computer department which is on line with CHIPS. All that is required is one member of the bank computer department to be witting in the activities related to one, or a series, of such high-volume accounts at the bank.

The narcotics executive orders a wire transfer made from his account, say, at Chase Manhattan in New York, to an IRS-proof and unregulated offshore bank account at, perhaps, Standard Chartered Bank in Nassau. In the Chase computer room, the witting computer operator adds one more message unit to the regular string of messages from Chase to Standard Chartered.

The ostensible value of the wire transfer ordered is $10,000; the computer operator adds another $1 million extra message unit. Simultaneously, the narcotics executive deposits another $1 million of illegal money to be

Walter Wriston of Citibank.

laundered in his legitimate Chase account. This is then successfully transferred to Nassau with the publicly noted transfer, and the banks' computers pick up no unusual movement of funds—particularly if the account is one where large sums of money come in and are withdrawn, as the executive said, each day.

In 1979, a computer programmer at Security Pacific Bank in Seattle was arrested by the FBI for doing just that—but he simply created a nonexistent $11 million extra message unit on a wire transfer from his Security Pacific account to a numbered account in Zürich, Switzerland. When the Zürich bank went to collect, he was caught.

But if the money *exists to be laundered*, actual funds will in fact have been transferred to the offshore center, and no problem arises. This is going on every day, Bell's Morris asserts.

Bring it here

It is the New York Clearing House banks, owners of the CHIPS computer network, who wrote the International Banking Facilities free-zone plan and who now stand to collect. With IBFs, the entire shell game of

The economic future under free-zone banking

The establishment of International Banking Facility free banking zones in the United States will cut dramatically into real U.S. industrial activity, by contracting the net credit available to the productive sectors of the economy.

Using IBFs, the top 100 money-center banks in the U.S. plan to consolidate control over the nation's banking system in their own hands. Credit in general is to be channeled into real-estate, commodity, and other speculative loans, at the expense of the nation's other 14,600 regional banks, who make most of the productive loans to the economy.

To Americans, this will mean steel plant closings, auto layoffs, less ability to buy homes, and soaring food prices. The international "hot money" brought into the United States by IBFs will "raise U.S. real estate prices across the board," M. J. Rossant of the Twentieth Century Fund predicts.

The IBF program, however, is part of a broader plan to establish a *national banking cartel.*

New York Fed president Anthony Solomon, in a Nov. 7 letter to Paul Volcker, stated that the Fed intends to approve, as part of IBFs, the equivalent of nationwide branching by all large banks who will join CHIPS, the New York banks' computer clearing system, to set up their IBFs.

As Comptroller of the Currency John Heimann said last week, the new EFT system, which renders McFadden "irrelevant," also means many small banks will go. "The transition to this era will be marked by . . . the disappearance of some institutions. The entity that does not adapt will not survive," he told a Washington audience.

In particular, as the Fed's Oct. 31 memo approving IBFs points out, the big banks using IBFs will be able to take *domestic* business away from regional banks by lending to U.S. corporations' home offices on the books of companies' foreign subsidiaries.

The loans now made by regional banks which are thus endangered include 85 percent of agricultural loans, 64 percent of consumer loans, 36 percent of industrial loans, including all small businesses locally, and 60 percent of housing loans in the United States.

money laundering now going on offshore will be brought onshore, hooking directly into the CHIPS system.

Under IBFs, large amounts of the $1.2 trillion Eurodollar market will come into the U.S., according to New York Federal Reserve President Anthony Solomon. In a letter endorsing IBFs to Fed Chairman Paul Volcker Nov. 7, Solomon predicted IBFs will mean that "a substantial share of what is now Eurocurrency business is done from a U.S. base."

In particular, M. J. Rossant notes, the vast amount of dirty money now held abroad which seeks investment in U.S. real estate will flood the country. "The real-estate market will be a good example of the way things in the U.S. economy can be made to change with IBFs," he said. "As a consequence of IBFs, as I said, the flow of funds becomes much more mysterious. As a result of bringing the offshore banking markets onshore, much of the investment in U.S. real estate now conducted, or hoping to be conducted, from offshore can be brought back onshore, and this means that the real-estate market itself will be deregulated."

Bringing the money-laundering activities now offshore back to the U.S. will dramatically encourage the drug and other black-market industries of the world, now outside the country, to move operations right into the U.S. In practice, the offshore side of the drug markets and related industries are inhibited from free and clear investment of proceeds in U.S. real estate, casinos, and other business by U.S. foreign-investment disclosure laws, hefty U.S. taxes on foreign investment, and other impediments.

Most of it in practice, therefore, is now forced to go through an expensive series of nested shell corporations. After the Iranian opium producer deposits his proceeds in Citibank London, the bank does not directly make a loan to his name, but to a numbered Swiss bank account which the merchant holds, which in turn owns a holding-company shell in the Netherlands Antilles, which in turn owns a real-estate investment company in the Bahamas, which eventually buys the New York apartment building.

Now the holding shells become obsolete. Citibank London can now transfer, tax free, inspection free, reserve free, the original deposit directly to Citibank IBF in New York. The corresponding loan to buy the New York real estate can then be made directly to perhaps one intermediary real-estate company in New York, without U.S. foreign disclosure or tax applied.

Already, Florida real-estate economist Charles Kimball estimates that in the first six months of 1979 alone more than $500 million in untraceable foreign money bought up some 38 percent of all new Florida real estate. "Two-thirds of this is directly attributable to the narcotics trade," Kimball told *War on Drugs.*

REAL ESTATE

Buying cities cheap... with drug revenues

by Lydia Schulman and David Goldman

This article is condensed from a 20-page exposé appearing in the January 1981 monthly magazine War on Drugs.

Last July, one news item peeked through the gloom of more announcements of New York City budget deficits and service cutbacks. A big Canadian realtor, Cadillac Fairview, made the winning bid on an all-time record development contract, to take 30 acres of unused property on the East River and put $700 million into a giant apartment, shopping, and entertainment complex.

The Canadian plan, solemnly debated in the editorial pages of the *New York Times* and the *Daily News,* capped a three-year spending spree in New York real estate, driving commercial rents up to double their previous levels, and residential rents by almost as much. After years of economic bad news and declining population, the real estate boom seemed to brighten New York's future.

Or did it?

Investigators seeking the source of the multibillion-dollar flow of funds into New York found a stone wall of obscure corporate fronts in Switzerland, Liechtenstein, and small Caribbean islands. Advertisements appeared in every edition of the Sunday *Times* real estate section, representing "foreign clients with $1 to $20 million" of investment money looking for commercial or housing properties in New York.

At one firm, Kenneth Laub Associates, realtor Richard M. Rosen told *War on Drugs,* "Our clients deal in cash only," an astonishing fact in an industry where fortunes rise and fall on access to borrowed money. "Our clients are referred to us by Swiss banks," Rosen said. "No, we cannot say who they are. They demand complete confidentiality."

At the top level of the development business, which includes Canadian firms like Cadillac Fairview, winner of the East River bid, and Olympia and York, the city's third largest commercial landlord, the source of funds is no clearer. Their Canadian head offices are an investment conduit for funds from the trillion-dollar "offshore" pool of funds, where the rule is no taxes and no public scrutiny.

Where is the money coming from? What our investigators had already discovered about Canadian real estate led us on a trail of inquiry with a shocking conclusion: *The profits from the sale of narcotics in New York City are being used to buy control of the city itself.*

A Commerce Department official in charge of tracking foreign investment into American real estate complained, "When we see that a corporation is registered in the Netherlands Antilles, say, we are immediately suspicious, and we ask for the beneficial owners. But a lot of them have resisted, and even if we are given the list of beneficial owners we can't do anything with it. We can't go over to Europe and audit it."

The Florida real estate story

This kind of secrecy is chilling, for one good reason: in December 1979, the Permanent Investigations Subcommittee of the U.S. Senate blew the lid off the Florida real-estate market, showing that narcotics traffickers have pumped hundreds of millions of dollars into Florida real estate. In the first six months of 1979 alone, economist Charles Kimball told the Senate panel, a minimum of $191.1 million of dirty money bought into Florida property.

Of this, Kimball reported, "two-thirds is directly attributable to the affluence generated by the narcotics trade." Through corporate "shells," no more than a nameplate and a mailing address in Panama, the Cayman Islands, the Netherlands Antilles, and other "offshore" tax havens, the dope traffickers conceal the funds they take off American streets, and invest them back into properties or other seemingly legitimate businesses back in the United States. In Florida, the dope business move on real estate was so big that it sent the entire economy on an inflationary spree, Kimball reported. "The cash-heavy buying syndicates have pushed U.S. investors out of some markets and through their continuing activities have added to already serious inflationary tendencies in the market. As the inflation gains momentum in the real estate sector, the offshore corporations can buy and sell between each other, generating huge tax-free profits that in effect assist in the laundering of funds through the real estate market." In other words, Kimball said, dope traffickers in Miami can report their huge earnings as windfall profits from the sale of real estate that has risen in value in a short period of time, disguising the true origin of their income.

In all, Kimball concluded, more than half a *billion* dollars in untraceable foreign money bought into Florida properties in the first half of 1979—a staggering 38 percent of the total volume of major real estate transactions. During the past year, several large Canadian banks, the bankers for the Canadian firms like Cadillac Fairview and Olympia and York, set up offices in Miami, bringing with them their clients' confidential investment funds.

Does this have anything to do with the New York real estate boom? Kimball was asked. "According to my contacts in New York," countered the Florida economist, "the same groups based in Panama and the Netherlands Antilles have been flooding money into New York City."

The $200 million reported to be laundered through Miami banks was the rather small cut taken by the expendable petty hoods who move the illegal goods from the cocaine and marijuana-growing regions of Latin America to the Florida coast. The biggest chunks of the retail and wholesale trade inside the United States are run by the sophisticated criminals who take better precautions than to hand their earnings to bank tellers in suitcases.

Instead, they employ complex and almost trace-proof channels in the New York City-based commodities markets, and the intricacies of modern electronic banking, to move their funds through New York's international banking center and then out to the Caribbean and Europe. New York dope traffickers, Drug Enforcement Agency sources report, also use Florida banks to "wash" their money.

A recent Treasury study of illegal money flows in the U.S. economy showed that the principal flow of dope money in the form of cash was, indeed, between New York City and Florida. The Treasury also showed that New York City banks were drawing an extra $2.6 billion per year from the Federal Reserve Bank of New York. In its report, published in the *Wall Street Journal* Sept. 11, the Treasury implied that the main use of this extra cash was the narcotics traffic.

'DOPEC'

From the documentation assembled by the Permanent Investigations Subcommittee of the Senate and the U.S. Treasury, and the extensive independent investigations of *War on Drugs*, the New York and Florida narcotics money circuit are two outposts in a vast, multibillion-dollar chain of dope money laundering. *Dope, Inc.* revealed that the dope traffic was neck-and-neck with the OPEC oil cartel for first place in international trade, with an annual cash flow of $200 billion.

Major banking interests handled the vast cash volume of the traffic, as well as the 50 percent of the world gold market diverted into illegal channels and other means of secretly transporting illegal revenue. These institutions start with the immense Hongkong and Shanghai Bank, founded a century ago as the central bank of the official British opium traffic, and still based in the center of the world heroin and opium trade.

Last year, HongShang bought majority interest in New York's $13 billion Marine Midland Bank, despite


Photo: NSIPS
Housing in a rent-controlled neighborhood of Manhattan.

the protests of New York State banking authorities, who complained that the Hong Kong giant refused to divulge its secret "hidden profits" account.

New York real estate

New York City's real estate market is one of the world's juiciest financial plums. With a rent-roll of about $100 billion, New York's office buildings and apartment complexes are bought by life insurance companies, pension funds, and other big international investors, as one of the world's most desirable investments.

The capitalized value (resale value) of the real estate within New York City's five boroughs is an incredible $700 billion—*three times* the estimated value of all the manufacturing plant and equipment in the entire United States economy! The New York bubble is the most extreme example of the deterioration of the nation's economy: our capital has been misinvested into useless and even counterproductive forms of speculation, while the basic capital stock of American industry has not been replenished. But even more, the stupendous growth of real estate values in New York is the culmination of a 15-year binge identical to the dope trade buyout of Florida real estate. In New York City, as in Florida and elsewhere, what we discover is the result of a $100 billion per year narcotics traffic accumulating since the mid-1960s.

The narcotics traffic has become a determining factor in American inflation.

Since 1977, the first-class side of the New York real estate market has been the pickings of a tightly-knit handful of major foreign investors based out of Canada. Like Cadillac Fairview, the other foreign money in the market is stupendously well-heeled and totally anonymous. Organizations such as Olympia and York are the biggest buyers of the last three years, and even locally headquartered developers like Donald Trump, the "wonder boy" of New York real estate, are making their big plays with foreign money.

City Hall has been drawn, as if by a magnet, into the real estate boom since Mayor Edward Koch took office in 1977. City tax laws, property auctions, zoning changes, and development policy have been bent to accommodate the downtown building purchases of Olympia and York, the East Side extravaganza planned by Cadillac Fairview, and the new Convention Center projected by Donald Trump. Top former officials of New York City now work for the foreign real estate giants. They include Olympia and York's lawyer and spokesman before the city's Board of Estimate, former deputy mayor John Zuccotti, and Donald Trump's own representative, Stanley Friedman, a former Bronx borough president who is a member of the firm of Trump's lawyer, Roy Cohn.

The foreign investment boom has changed the face of New York City. Major projects now underway include:

- The $700 million complex of 1,800 luxury apartment units mentioned earlier, to be built by Cadillac Fairview. Known as "River Walk," the project will include a hotel, high-priced shops, and a 203-ship marina for pleasure boats.
- The "Trump Tower," a 28-story, 62-sided building under construction at 56th Street and 5th Avenue. At prices ranging from $5 to $13 million apiece, the apartments in Trump Tower will be "so expensive that

only foreigners will be able to buy them," its developer, Donald Trump, predicted.

• A new Convention Center with a $375 million price tag, a gigantic "rehabilitation" plan for tawdry 42nd Street, a Herald Square redevelopment plan, and other hundred-million-plus enterprises.

City Hall at 54th Street

When Treasury agents sent Studio 54 discotheque owner Steve Rubell up the river for tax evasion at the beginning of this year, the Treasury found a notebook whose contents found their way into the New York press, indicating that Rubell and his nightclub were the biggest center for wholesale distribution of cocaine in the metropolitan area. Until Studio 54 was shut down, Cohn received an astonishing $7,000 *per week* for legal services to the disco club. In two years, he received more in legal fees than Rubell is reported to have hidden from the Internal Revenue Service!

Until Cohn achieved notoriety as Studio 54's lawyer, his claim to fame in the New York legal circuit was based on the incredible array of real estate interests represented by his law firm, Saxe, Bacon and Bolan. Among others, Cohn's clients include 33-year-old developer Donald Trump, whose firm developed the Hyatt Hotel next to Grand Central Station. He also represents the landlord association dominated by Trump, known as CHIP. Cohn is the most exposed tip of a patronage machine that annually disposes of several billion dollars a year in favors for New York real estate interests—of which the prime recipients since 1977 have been Olympia and York, Cadillac Fairview, and the Trump Management Co.

New York electoral politics is a cash-and-carry business. Real estate is not only the city's biggest cash earner but the main source of political contributions. Donald Trump's $135,000 contribution to Governor Hugh Carey's re-election campaign in 1978 did not even raise eyebrows.

The buying of New York City

New York City grants favors to the Canadian real estate barons worth between $2 and $3 billion annually, a leading real estate analyst told *War on Drugs.* The more we talked with New York realtors, the more the financial relations between the Canadian barons and the city and state government of New York looked like the ties between the mayor, the mill owner, and the general store in a company town in the deep South. After the 1975 fiscal crisis, the real estate barons were the city's economy, period.

As New York's industry and population shrank, the one thing rising was rents—which rose from about $7-$13 per square foot in 1977 to $18-45 in 1980 in prime commercial office buildings, and to at least $45 in a few prestige towers. At the same time, the number of apartments available for rent dropped from 2 million to 1.9 million over the past three years, due to slum abandonments and to a lucrative swindle known as "co-oping," or selling a building back to reluctant tenants for $10,000 *per room* and up.

Meanwhile, an East Side development complex, a Convention Center, a new Hyatt Hotel, a gigantic complex at 42nd Street complete with an indoor 15-story Ferris Wheel, and other big developments were going up. Trump and the Bronfmans showed up at city auctions of just-condemned property to buy up entire blocks. And all of this was financed by the Montreal money circuit, out of Hong Kong, Liechtenstein, and the Caribbean tax shelters.

One of the Beame administration's last major actions—under the direction of Cohn partner Stanley Friedman and John Zuccotti—was a "tax incentive" program that permitted stupendous tax giveaways for the "renovation" of downtown real estate. In other words, if a real estate operator takes over a building worth $10 million, refurbishes it from the ground up to bring its value up to $100 million, he will only pay taxes on the original $10 million plus a token 5 percent, for 19 years of the building's life. Only a few months after Zuccotti obtained tax abatements for Olympia and York, he was working for O and Y, and Olympia and York was putting $127 million into the renovation of 466 Lexington Avenue, the aging home of the Penn Central Railroad.

Of course, the big Manhattan projects are only the most visible. For reasons no one in the city government cared to comment on, the city began foreclosing on properties that were a year behind in real estate taxes in 1976, instead of three-year foreclosure as in the past.

Suddenly, the city foreclosed on enough property to become the town's biggest slumlord, with 75,000 mostly slum apartments—five times as many as the next largest landlord, Donald Trump.

"Renovators" show up at city auctions and buy entire blocks of property at knockdown prices at one throw. They then evict the existing tenants, many of them welfare recipients, and start to "rehabilitate" the property. The "renovator" then applies to the city for a tax break under a Koch administration ordinance known as J-51. With this in hand, they are guaranteed a 12-year tax break on 90 percent of the value of renovated property.

This is not small business. Rehabbers spent between $500 million and $1 billion per year at the current rate in sprucing up properties, for tax-free capital gains.

One striking feature of the rehabilitation swindle, something that sets it apart from every other kind of business conducted in the City of New York, put us onto the line of investigation that led to the astonishing conclusions of this report. The entire business is handled in cash.

Cash comes in from Liechtenstein or the Cayman Islands to buy properties at auction. Hundreds of millions of dollars in hard currency change hands annually, a volume barely matched by the Las Vegas casinos.

It was the Florida pattern that Charles Kimball had revealed before the Senate Permanent Investigations Subcommittee in the testimony we quoted earlier. Kimball had warned us that the same Caribbean-based narcotics money that had shaken down the Florida real estate industry was moving into New York. But this was not the steady stream of dope money, the $200 million or so annually that the Floridians had tracked.

In New York, it was like standing in front of a burst dam. Funds were pouring in through the Caribbean channels, buying apartment buildings in the Riverdale section of the Bronx and condemned slum properties in Queens, but even more money was coming in through the Montreal channels we traced down earlier.

New York City is not only the country's biggest property market, but also the biggest center for retail dope distribution. Every year, $15 billion in narcotics are sold on its streets, a disproportionate share of the $100 billion annual sales in the United States.

And, as we learned from the Florida investigations, real estate deals are a brilliantly successful means of hiding dope profits. No one knows where the funds come from to purchase property. A dope dealer who successfully gets his profits out to a bank in Liechtenstein is in the catbird seat. Ordinarily, his big problem would be the Internal Revenue Service. Even if he managed to avoid reporting his income, how will he explain a $200,000 house, a couple of Cadillacs, and a vacation home on the Riviera? Real estate makes this simple-mindedly easy.

If he wishes, the narcotics operator can avoid the expenses of maintaining offshore corporate fronts, well-informed real estate sources say. By handing out a 90 percent tax credit for "rehabbing" beat-up properties, the Koch administration has given the narcotics traffic an exceptionally convenient means of turning illegal cash into "respectable" real estate profits.

All the physical construction work is done for cash payment. Much of it could be paid for with dope revenues, to contractors who know how to keep their mouths shut, turning dump properties into valuable assets, and all of it tax-free, thanks to Mayor Koch.

The pieces of the puzzle now fell into place with an awful kind of certainty. The Canadian invasion, which happily gobbled up older, local operators like Trump and Zeckendorf, needed a big change in the political map in New York City, including revision of tax and zoning laws from the ground up. The Canadians' incredible access to cash depended on their relationship to the dirtiest banks in the world. *The profits from the sale of illegal narcotics in New York City are being used to buy control of the city itself.*

URBAN POLICY

'Hong Kong' model for housing and jobs

by Lonnie Wolfe

Three weeks ago, San Diego Mayor Pete Wilson, chairman of the Reagan transition team urban policy task force, held a press conference in Washington, D.C. to announce proposals for a "sweeping redirection of urban policy."

Wilson rattled off a list of proposals, the most important of which were the following:

1) The elimination of local rent control programs. The new administration, the task force recommended, should withhold any federal grant money from cities that refused to agree to phase out their rent control programs.

2) Introduction of a rent voucher system. The task force proposes to substitute this program for all current federal low-income housing subsidies. The details of the program have not yet been worked out but the dominant view among Reagan task force advisers calls for handing out rent subsidy checks to poor families; these checks would only be redeemable by a landlord. A tenant would be free to augment this check with funds out of his own pocket, said a source close to the task force.

3) The creation of urban free-enterprise zones. This proposal, which was submitted in preliminary legislative form last session, calls for the creation of "free" zones in the worst ghettoes of the country, where government regulations would be relaxed and tax shelters built to encourage small business. Wages would be encouraged to seek their own, low, levels, say its proponents.

Wilson's hastily called press conference neglected to announce that the proposals had only been passed on the day before and had not been discussed with top Reagan advisers.

Reagan urban transition aide John McClaughry said on Dec. 2 that no urban policies have been decided upon since the campaign. Proposals from the urban task force have not been adopted, McClaughry stated.

Why then the rush, especially since the controversial proposals provoked a immediate firestorm of protests from angry politicians and community leaders? The rent control proposal in particular was greeted with alarm by mayors and others in the Northeast and Midwest.

According to well-placed sources in Washington, the proposals represent part of an attempted policy coup by the Heritage Foundation, a think tank moving to take over key policy-formulating channels in the incoming administration.

In private discussions, Heritage policy planners describe their urban plan from two interrelated perspectives. It is not an urban policy at all, but an effort to create a massive speculative boondoggle around urban real estate.

The major purpose behind the floating of the Wilson task force proposals was "to create the kind of climate needed to stabilize the real-estate market," a Heritage Foundation spokesman said. What was motivating key people on the Reagan task force was the knowledge that "without at least talking about drastic action, the real-estate market was headed for a blowout in the near term." The only way to save the market is to channel "tens of billions of dollars of new money into it," said the Heritage spokesman, who was familiar with the task force deliberations. The Wilson program doesn't come out and say it, said the spokesman, but it is grounded on the assumption that "we will commit a huge portion of our capital to pass through the real-estate market. We can then generate new capital off the mortgage market."

By removing rent control, making direct payout to landlords, and creating in "free-enterprise zones" new outlets for real-estate investment, Heritage proposes to create a new speculative bubble on top of the one already ready to burst.

Heritage planners say that the creation of so-called International Banking Facilities as proposed by the Federal Reserve will create an unlimited tap for speculative funds for this purpose. New tax incentives are also planned. And, as the accompanying article on mortgage indexation details, Heritage proposes to rewrite U.S. mortgage laws to encourage all new and existing mortgages on both private homes and urban apartments to be cut loose from their presently fixed interest rates, averaging 13 percent today for a 30-year mortgage. Instead, mortgages will be freely indexed to Federal Reserve interest rates, rising to as much as 20 or 25 percent in the medium term.

To be precise, they propose to reward speculative investment in real-estate ground rent and penalize investment in what produces real wealth.

To back this speculative investment, the Heritage people also propose a drastic shift of urban human "capital" into labor-intensive, low-wage jobs. That is the policy behind the "free-enterprise zone"—a policy specifically modeled on the sweatshop economy of the British crown colony of Hong Kong.

It is summed up by the following statement to a reporter by a Heritage urban policy expert: "We have

How Heritage sells the enterprise zone plan

The following is excerpted from the concluded section of the fall 1980 Heritage Foundation "critical issues" pamphlet entitled "Enterprise Zones—Pioneering in the Inner City."

The Enterprise Zones concept marks a radical departure in thinking on the inner city problem. But unlike most radical ideas, enthusiasm for it is not limited to one narrow political group or lobby. . . .

Fiscal conservatives appreciate that the enterprise zone approach is not just another bureaucratic program designed to throw tax dollars at the inner cities. The idea is fundamentally antibureaucratic; it clears away guidelines rather than creating them. Furthermore, it does not involve the expenditure of billions of dollars in grants and loans in the hope that something may spring from the rubble. . . .

But the enterprise zone also appeals to those who have been directly involved for many years in the central city projects—the urban liberals and the minorities. Many such people have grown frustrated, disillusioned and tired of the ineffectiveness of large government projects which never seem able to deal with local conditions. . . .

Unexpected local problems and crises have been generally dealt with at the local level [in the United States] by a combination of individual initiative and community resolve. This apparently haphazard approach has allowed unconventional but effective solutions to be applied to problems. . . .

The enterprise zone is strongly within this tradition. It is a recognition both that at least part of the urban crisis is due to government and that success is more likely if residents of a community are given a real chance to rebuild commerce and housing of their neighborhood with a minimum of taxes and red tape. The enterprise zone imposes no blueprint and stifles no local idea. What it does do is declare the blighted inner cities open neighborhoods, devoid of as many regulations and tax costs as possible, and invite what may be called urban pioneering. . . .

been handing out money to keep the poor alive without getting any real use from them. We can't afford this any more. If we don't decide to simply eliminate these people or ship them somewhere, then we have to put them to work and get some use value out of them."

Heritage spokesmen say that they oppose planned shrinkage—the policy of deliberately deciding to triage certain areas of the city by making austerity budget cuts in services predominantly in those areas. In reality, Heritage proposals such as the enterprise zone are the end-game of the "planned shrinkage" process.

As an action plan, the Heritage urban policy breaks down into two sets of proposals: those on the immediate agenda and those which must be put off for political reasons. At this moment, the enterprise zone is on the front burner; scrapping rent control, and related proposals, will take longer to effect.

The workhouse zone

The enterprise zone concept is thus the foot in the door for the entire Heritage urban package. The proposal was incorporated into the 1980 GOP platform, and the concept received Ronald Reagan's public endorsement several times on the campaign trail.

The originator of the proposal now being proffered by Heritage is Peter Hall, a leading British urban policy expert and the former chairman of the socialist Fabian Society. Hall has dubbed his proposal a "free-port concept." In a 1977 speech, he elaborated on it as "an essay in non-plan. Small selected areas of inner cities would be simply thrown open to all kinds of initiative, with minimum control. In other words, we would aim to recreate the Hong Kong of the 1950s and the 1960s inside inner Liverpool or Glascow." The specified areas would be free of national exchange and customs control and foreign business and capital would be welcomed. All goods could be imported and sold duty free.

According to Hall, the areas would be based on "fairly shameless free enterprise" and would be "free of taxes, social services, industrial and other regulations. Bureaucracy would be kept to an absolute minimum. So would personal and corporate taxation. Trade unions would be allowed, as in Hong Kong, but there would be no closed shops. Wages would find their own level."

In 1978, Hall's proposal was embraced and modified by then Conservative opposition economic spokesman Sir Geoffrey Howe. Now Chancellor of the Exchequer in Margaret Thatcher's government, Howe announced in his March 1980 budget message that he would support a limited version of the Hall proposal, shying away from the "free trade zone" component. In July

Photo: NSIPS

New York's South Bronx.

Columbia's Savas on 'the free market'

The following is an interview with Emmanuel Savas, an adviser on President-elect Reagan's Urban Task Force. Savas is director of the Center for Government Studies, Graduate School of Business, Columbia University. One of New York City's largest landlords, the university stands to gain enormously if rent control and building and fire safety codes are repealed.

EIR: Professor Savas, you attended the meeting which wrote the set of recommendations for the Urban Task Force. Do you agree with those recommendations, and was there much divergence in views?

Savas: The views of those at the meeting were basically unanimous. I myself do question one of the recommendations, which will subsidize mortgage bonds for housing construction. I oppose this because it will divert capital from industrial investment.

EIR: Why not subsidize both housing construction

1980, seven targeted areas were selected as enterprise zones to be opened by the end of this year.

The enterprise zone idea was introduced to the United States by the Heritage Foundation in early 1979. It followed discussion of the concept at a September 1978 meeting of the Mont Pelerin Society in Hong Kong attended by Heritage president Ed Feullner.

A fall 1980 Heritage publication identifies the three interrelated points behind the proposal:

1) The belief that federal government programs have created the urban crisis and that any large-scale federal effort to redress those problems is doomed to failure. Documentation of various mismanaged federal programs is offered; no mention whatsoever is made of the looting of urban America through real-estate speculation or its related destruction of urban life.

2) The belief that the key to reviving inner cities is small "innovative and creative business." Without stating so explicitly (though it is done so in other presentations on this theme), the Heritage Foundation endorses the postindustrial society idea, which states that an urban, industrial-based society is no longer possible. There can be no revival of American cities based on an industrial renaissance, the pamphlet states. The small assembly shops and ethnic- and counterculture-oriented service industries (disco, head shops, etc.) are the way of the future.

3) The belief that a locally controlled program allocating "limited resources" and focusing on "self-help" is the way to salvation. Heritage Foundation policy planners sound remarkably similar to "community control" proponents from such Ford Foundation groups as the old Students for a Democratic Society in the late 1960s.

The Heritage enterprise zone borrows liberally from both Hall and Sir Geoffrey. They stress that an American enterprise zone must eventually lower the minimum wage—at least for youth—and eliminate rent control, while creating a tax shelter for real-estate investment. These issues stir political controversy and may have to be initially compromised, Heritage says, to "get the ball rolling."

In public discussion, a conscious effort is made to portray the enterprise zones as a vehicle for creating "meaningful jobs." This is especially true in efforts to sell the idea to black and other leaders. In private discussion, the view presented is quite different.

"We are talking about the Hong Kong model and we mean it quite literally," said a Heritage spokesman. "The jobs in Hong Kong may not be great, but at least they are jobs. That is what counts."

According to a spokesman, in an "ideal" enterprise

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and industrial investment?

Savas: That might excessively benefit those two sectors at the expense of others. I favor a free capital market. I find many of Milton Friedman's ideas appealing, though I try to approach these issues in a pragmatic, nonideological way.

EIR: Why do you oppose rent control?

Savas: It is a myth that rent control keeps rents down. Rent control causes a decrease in the availability of affordable housing, and we should not give housing aid to cities which are destroying their housing through rent control. . . . Of course we wouldn't require them to end it all at once. If they make a real commitment to end it over time, that would suffice.

EIR: And food stamps. Isn't it the case that if we replace food stamps with cash handouts, as you suggest, that the money will probably just be wasted, instead of going to ensure nutrition?

Savas: Food stamps were never meant to ensure nutrition. They were designed as a handout to farmers. If we want to engage in income transfers, let's do it openly and honestly, without subsidizing the Agriculture Department.

EIR: I'm sure you realize that these ideas of yours are going to face a lot of opposition. How do you expect to ever get them passed?

Savas: Immediate passage doesn't matter. But intellectual shock is the key. The key thing is the gradual permeation of new ideas into peoples' consciousness. Gradually society will start to adopt them.

EIR: Won't your idea of free enterprise zones without minimum wage laws just lead to dead-end jobs?

Savas: There's no such thing as a dead-end job. Is a dishwasher a dead-end job? One can go from being a dishwasher to a counterman, a counterman to a restaurant manager, from manager to owner, and then to the owner of a chain of restaurants. Foreigners are glad to take even the most menial jobs in our economy. For them it's a step up, in the next generation they climb the social ladder.

These urban enterprise zones are a way of duplicating here in the U.S. the boom-town phenomenon in Third World countries. You get rid of all the minimum wage laws, zoning codes, building codes, fire-safety codes, environmental codes, and investment will come in. If we don't do that, we are going to have to turn the South Bronx into a reservation.

zone, there will be only very limited new construction. The shells of existing slum buildings would be used. On the basement floors, small labor-intensive assembly shops and cottage industry would be set up. On the ground floor, a disco, or a head shop, or a small store. On the floors above, rent-decontrolled apartments. In a vacant lot, temporary workhouse-like facilities would be built. In larger open areas, small labor-intensive factories are to be constructed. Wages would be low, community spirit very high. Construction would be handled by "neighborhood work gangs" run by various local contractors. Police would be augmented by community patrols, garbage collected by low-wage workers.

"We are talking about putting a lot of kids to work at low wages and let them learn about holding a steady job," said the spokesman.

Relaxation of local ordinances would be handled through community councils. The zones, said the spokesman, would be like little autonomous regions, in some ways "like the ghettoes used to be in Europe."

Once the federal government enacts enabling legislation, it will stay out of the affairs of the enterprise zone. It will provide only start-up money through channels such as the Small Business Administration, since the capital needs of the zone are to be handled by the private market.

The real-estate boondoggle component of all this is obvious. Right now, the value of property titles in bombed-out areas such as the South Bronx is zero. Such properties are nonetheless carried at inflated values on the tax books of the cities and relevant mortgage holding companies and banks. The announcement of an area as targeted for enterprise zone development will trigger a new round of speculation on these property titles, pushing up their values well beyond the already inflated book values.

The Heritage Foundation openly welcomes this speculation, a spokesman indicated. "It's good for the real-estate market."

A form of the enterprise zone was introduced into Congress (H.R. 7240) last May by Rep. Jack Kemp, a Republican from Buffalo and an adviser to Ronald Reagan. The newly redrafted Kemp bill, which has picked up several cosponsors, does not go as far as some Heritage planners would like. For example, it does not exempt the zone from federal legislation such as the minimum wage of the Davis-Bacon Act. It does create tax shelters and a free trade zone.

Heritage people feel that this is about as far as Congress can be expected to go at the present moment and may be as far as Reagan is willing to go. "It is a good start," said a spokesman. "Once we get our foot in the door, we can open it the rest of the way."

They see enterprise zones in operation in the U.S. by possibly as early as late 1981.

Indexing mortgages to end rent control

The single most controversial component of the urban policy package is the proposal to eliminate rent control.

Rent control is a state or locally authorized program dating back to World War II, when the influx of people to the cities created a tremendous housing shortage. "Emergency" controls were slapped on rents to prevent landlords from taking advantage of the market and charging exorbitant rates. To the chagrin of the landlords, the programs were continued after the war. Later the program was amended to allow for some rents to rise by limited amounts fixed by a local "rent stabilization" board. (Under rent control, rents are permanently fixed.) In some places like New York City, if a tenant vacates a rent-controlled apartment, the new lease is then handled under the "rent stabilization" program.

At this point, it is estimated that several million units are under rent control or rent stabilization in areas of New York State (more than 1 million units in New York City alone), New Jersey, Boston, Washington, D.C., Los Angeles, and California, as well as other urban areas.

The standard complaint repeated by landlords and their bankers, and supported by the Heritage Foundation, is that rent control and rent stabilization prevent landlords from getting a fair return on their investment and are thus a disincentive for private urban housing development at all income levels. By their logic, lifting rent controls will improve landlords' ability to maintain their buildings, and, since it promises greater return on investment, will spur new housing construction.

But even Heritage spokesmen are forced to admit that most rental income is siphoned off to pay interest and principal payments on property titles. The major portion of any rent increases will thus flow back to the landlords' creditors.

As for new housing construction, the major impediment is neither the cost of labor nor the prospect of low rental income levels. The impediments are twofold—the high cost of capital, caused by the Federal Reserve's hiking of interest rates, and the bloated cost of urban property titles caused by massive speculation on ground rent.

As the Heritage Foundation and its cothinkers openly state, they are committed to a new round of speculation on ground rent—and therefore are committed, no matter what they say, to a further collapse of the urban housing construction market.

Speculative incentive

In fact, the purpose behind the proposal to lift rent control is to enhance the attractiveness of new speculative investment with the promise of sky-high rents. A Heritage Foundation spokesman boasted that rent decontrol and the complementary rent-voucher payment systems "are multibillion-dollar handouts to landlords" that will "create a new rush to get a piece of the housing action" in sales of secondary mortgages and other property titles.

Rent control has come under consistent attack from various landlord-linked groups. Key among these is the National Multi-Housing Council (NM-HC), whose president, Richard Fore, is on the Reagan urban policy task force. According to a spokesman, NM-HC was formed in March 1978 by "developers, landlords, and those in the real-estate market to get rid of rent control/rent stabilization." One of the most prominent local groups within the Council is the New York-based Community Housing Improvement Project (CHIP), controlled by the Donald Trump Organization. The lawyer for CHIP is Roy Cohn, the 1950s counsel to Sen. Joseph McCarthy and habitual defense attorney for accused underworld figures and drug traffickers. In 1969, with Cohn handling the argument, CHIP launched a legal action to end rent controls in New York on the basis that the wartime emergency measures under which the program was created had long since expired. The case is now before the U.S. Supreme Court.

Spokesmen for CHIP and NM-HC admit that the elimination of rent control will send rents soaring. "That's okay. . . . that's what we want," said NM-HC Executive Director Richard Francis. Decontrol will encourage the trend toward "gentrification"—replacement of low-income families with the well-to-do in certain areas, because the poor will be priced out of the market, said Francis. This too is to be welcomed. Rents would also go up in ghetto areas—including the proposed enterprise zones—but there, government subsidies like the proposed rent vouchers would benefit the landlords.

Controlled debate

Both Heritage and its cothinkers like the NM-HC recognize that rent control is a "red flag" issue, promoting maximum political controversy. They plan to secure its elimination by stages.

The inclusion of the rent decontrol proposal in the Wilson Urban Policy task force recommendations was

New York State ends usury ceilings

The New York State Legislature has passed a sweeping amendment to the State Banking Code, signed by Gov. Hugh Carey on Nov. 21, which lifts all usury ceilings on consumer credit and mortgage rates. It will double the costs of consumer loans and send the price of home buying out of sight for most New Yorkers.

The measure could cost consumers over $3 billion in interest payments, and raise the average mortgage from 13 percent to 20 percent and up.

Walter Wriston, chairman of Citibank and mooted Reagan treasury secretary, and Chase Manhattan chairman David Rockefeller, rammed the measure through the State Legislature by threatening to move over 8,500 bank jobs out of the state.

Wriston, a prominent supporter of Federal Reserve Board chairman Paul Volcker's high interest rate policy, intends to make New York a national example. "This New York decision is of national importance, because it sets a precedent for full deregulation of banking and housing prices," William Warfield of the Senate Banking Committee staff told *EIR*.

"We supported the elimination of usury ceilings and deregulation of the savings banks" which make most home and apartment mortgage loans, Ellis T. Gravett, Jr., president of the giant $5.2 billion Bowery Savings Bank, told *EIR*. "Rent control should have been eliminated a long time ago." Gravett pointed out that while a direct attack on rent control is now politically unpopular, allowing home and apartment building mortgage rates to soar would in time bolster landlords' arguments that rents, too, must increase. Landlords won't be able to pay 25 percent a year on mortgages for buildings, while rents can only be raised 7 percent a year, goes the argument.

People who cannot afford usurious mortgages and decontrolled rents can either leave the city or move to the Bowery, Gravett stated.

On consumer loans and credit cards, the new State Banking Code amendment lifts usury ceilings, currently around 12 to 13 percent altogether. The only ceiling now remaining, the *New York Times* noted Nov. 22, is "the criminal statutory limit prohibiting the loan shark business, which makes illegal rates over 25 percent."

The projected New York Exposition and Convention Center.

a signal to re-activate the rent control debate on a national level. This has been augmented by editorial support from key Eastern Establishment papers.

Professor Emmanuel Savas of Columbia University termed this phase of the operation "intellectual shock therapy." By proposing the most extreme form of the proposal—full rent decontrol, backed by federal sanctions—the Wilson task force sets the boundaries of the conflict. From there, compromise is planned until Heritage achieves its political objective—phased rent decontrol.

One way of accomplishing this program is through congressional action. Last year, the House voted by a wide margin to deny funds to cities which allowed rent control on new apartments; the Senate didn't act on the measure. Rent decontrol advocates are encouraged by the make-up of the new Congress but remain doubtful about prospects for action.

The next phase of operations will begin in the next session of Congress. "The way I see it happening," NM-HC director Francis told *EIR*, "is that rent decontrol won't go all at once. First we'll get rent decontrol on new apartments. This will be a huge step toward the total elimination of rent control/rent stabilization. Then we will get vacancy decontrol, that is, the apartment rent will be deregulated as a tenant moves out. Then I see a descending process in which, first, luxury apartments are deregulated, next middle income, then lower income." Heritage sources further point out that the enterprise zone proposal, if passed, could spur decontrol of many lower income units.

Reagan has the power to get the ball rolling, as his policy task force recommends. By executive order, the President could hold up federal money to cities that refuse to commit themselves to phase out rent control. Or he might take a more limited step in holding up federal housing grants to projects under rent control.

According to Heritage and other allied spokesmen, Reagan is not yet willing to commit himself to rent decontrol. "We are going to have to give billions of dollars to landlords, whether we hate them or not. Reagan must learn this," said the Heritage spokesman.

The new battle over rent-control policy

As part of the British-style urban policy that the Heritage Foundation is proposing to the Reagan administration, U.S. rents and mortgages are to be forced up drastically. The offshore foreign investors whose funds will flow into free banking zones will demand rapidly rising interest rates on the mortgages they buy. Landlords will insist that to pay such mortgages, they must raise rents.

"To get to the point where we can meet the rising demand for investment in U.S. real estate by foreign funds, we must raise U.S. real-estate prices across the board," says Twentieth Century Fund director M. J. Rossant. In particular, foreign investors are interested in buying, and New York and other urban landlords are interested in selling, the average city-dweller's home—the very urban multifamily apartment buildings that now tend to be rent controlled, and which would otherwise yield very high profits.

As part of this plan, the U.S. mortgage market is about to be *indexed.* The traditional long-term 20- to 30-year U.S. mortgage at fixed interest rates, which allowed the construction of U.S. urban apartments and private homes alike and made American citizens the best housed in the world, will no longer be sold. In its place will be floating-rate mortgages, whose interest payments will change monthly or biannually, drifting from 10 to 20 percent or more, changing each year and indexed, in effect, to Federal Reserve interest rates.

While Heritage claims this will attract mortgage investors seeking the higher interest-rate returns, and lead to new construction, the fact is that indexed mortgages will make home and apartment building "simply unaffordable," says Roy G. Green, vice-president of the U.S. League of Savings Associations. "I don't think the consumer can afford 15 to 18 percent interest rates for any length of time," he told *EIR.*

The indexation of mortgages will in fact have the same effect as the indexation of consumer goods in Third World nations like Brazil. Under indexation, consumers cannot buy; less is produced; and living standards are lowered. With floating mortages, there will simply be less U.S. housing.

Initially indexing will apply only to *new* mortages, most of which are issued for private homes, since few urban apartment buildings are constructed today. The Heritage planners expect this to lead to a general market pressure for old and second mortgages on urban dwellings to be renegotiated at floating rates. Then the cry for ending rent control will go up, because floating mortgages cannot be financed otherwise.

"The first step to decontrol of housing rents is the deregulation of the mortgages markets," William Warfield, staff aide to Rep. William Stanton (R-Ohio) and member of the Heritage Foundation Housing Task Force, told *EIR.* The Heritage Task Force, which will not release its other members' names, is working with Stanton, ranking Republican on the House Banking Housing Subcommittee, and Sen. H. John Heinz (R-Pa.), incoming head of the Senate Banking Housing Subcommittee, on legislation they will urge upon Ronald Reagan.

"We plan to look at the entire federal structure of artificial constraints on mortgages prices," he said, "and write legislation to remove all impediments to raising mortgage prices with the free market."

The key indexation tool is the Variable Rate Mortgage (VRM), whose interest rates can be freely reset by the bank or lender several times a year. Related are the Adjustable Rate Mortgage (ARM), whose rate is adjusted according to a previously specified index scale, such as consumer prices; the Renegotiable Rate Mortgage (RRM), whose rates are negotiable every three to five years; and the Graduated Payments Mortgage (GPM), which starts with low monthly payments that rise dramatically later in the mortgage.

"First we have to deregulate *new* mortgages," Warfield said. "Today Federal Housing Authority-insured mortgages, in the hundreds of billions of dollars, which are about 20 percent of the new home and apartment mortgage market, are fixed by law to a 13 percent interest ceiling. The FHA ceilings must be lifted by law, so they can do Variable Rate Mortgages, and other alternative mortgages.

"Right now about 50 percent of all new mortgages are already being done as VRMs. That has to rise to 100 percent after changing FHA, that means changing *state* laws which now restrict VRMs. That's the importance of the new New York State banking bill, which allows savings and other banks to do 100 percent VRM and other floating mortgages."

This could soon force indexation of virtually all existing U.S. mortgages. As new mortgage rates rise from the current 13 percent average to 20 to 25 percent, and above with indexation, investors and banks will refuse to make second mortgages, which are needed to refinance almost every existing home and apartment mortgage, at less than index rates. Rates in the secondary market, where financial institutions sell existing mortgages back and forth like bonds, will rise accordingly. And rent control will be financially impractical.

Soviet moves in Poland hinge on economic policy

by Vivian Zoakos

The two-day Central Committee plenum of the Polish United Workers Party the first week in December demonstrated that Poland's current leaders are dead set on carrying out the same policies of economic and political decentralization and deindustrialization attempted in Czechoslovakia in 1968. At that time, such policies were a central causal element in the Soviet decision to advance militarily on Prague.

The point has been made forcefully from different standpoints at least twice over the past two weeks. On Dec. 4, Gaullist Michel Debré, former French foreign minister, warned in the pages of *Le Figaro* that a Soviet intervention into Poland would be caused primarily by the perceived dangers of economic disaster. Debré used this argument to motivate a strongly worded appeal to West European governments to take whatever steps would be necessary to provide Poland with substantive economic aid, including the lifting of any import curbs on Polish exports.

A week earlier, representatives of the traditional trade unions from every part of Poland met in Warsaw to make their first public stand on the Polish situation since August. Szyszka, chairman of the liaison commission of the trade unions, warned in his keynote statement that the traditional unions would never agree with the technocratic concept of decentralization which sees an alternative in lower productivity, in unemployment, and in the bankruptcy of some enterprises.

He warned that the policy of economic and political decentralization espoused by Solidarity and backed by the government is not a new one, identifying it as a mere rehash of classical anarchosyndicalism. He concluded, "Such concepts have never succeeded in laying the lasting foundations for a social order and social prosperity."

The results of the Polish Central Committee plenum confirmed the harsh accusation of Szyszka and the trade unions that the government had indeed adopted Solidarity's program of anarchosyndicalism.

Delivering the economic report at the plenum, Prime Minister Josef Pinkowski announced that a thorough review of the economic situation was being carried out by the government in preparation for launching a series of reforms. This will include a two- or three-year plan within the framework of the existing five-year plan in order to "restore balance and economic stability" in the country. Pinkowski identified the parameters of the new economic program:

• better use of the potential of small-scale industry and crafts;

• industrial decentralization including a "radical streamlining of organization at the central level. . . . We shall introduce next year a real decentralization of economic prerogatives in the system of local authorities and administration;"

• a freeze on implementation of a portion of investments, hitting particularly larger-scale heavy industry. "We propose a ban next year on beginning new industrial investments, apart from those specified by the Council of Ministers."

For his part, Polish party chief Stanislaw Kania in his speech to the plenum confirmed the charges of the traditional trade unions. In the face of sharply increased Soviet pressure, including military pressure, Kania delivered what on the surface might be construed as a tough speech attacking "anti-socialist elements linked to imperialist circles" within the Solidarity structure. However, he was careful to limit these attacks to regional hotheads who are trying to foment strikes for their own "counter-revolutionary" purposes. For the national Solidarity leadership, Kania had nothing but praise, dubbing it a responsible group with whom the government could collaborate.

Walking a tightrope

With an eye to the East Kania tried simultaneously to convince Moscow that he is aware of the danger of the situation and has things under control, commented the British Broadcasting Corporation Dec. 1. Said Kania: "We understand well the internationalist anxiety and concern that the situation in Poland arouses in fraternal parties. We are grateful especially to our Soviet comrades for their understanding of the nature of our difficulties. We shall find a way out of the crisis."

To attempt a further consolidation of his position, Kania ousted from the Politburo four former associates of his predecessor, Edward Gierek. Gierek was toppled in September following the first wave of worker unrest. Gierek himself was formally dismissed from the Central Committee and the parliament in the course of the new plenum and an official declaration was issued accusing him of "creating an atmosphere of intrigue and sham democracy."

This latest slashing away of the Gierek faction within the Polish party has both an economic and political component. Gierek was known for his ambitious industrialization program, the opposite of the "small is beautiful" ring of the Kania government's economic policy.

Soviets escalate military preparedness

Gierek was also the central Eastern European figure working towards détente, particularly in collaboration with France and West Germany. He was toppled by Soviet factions hostile to his policy, in league with Poland's Jesuit-linked "solidarists" and British-linked liberal economic reformers (the "small-is-beautiful" ideologues). These forces are now gunning for an escalation of Poland's domestic unrest, chiefly to prevent any thawing of Soviet relations with the United States under the new Reagan administration.

The Soviet leadership remains deeply divided over how to respond to events in Poland. The consolidation of Kania's position at the plenum suggests that the Soviet faction which supports his pro-Solidarity course remains strong. Yet warnings published in the Soviet press this week comparing Polish developments to those preceding the 1968 Warsaw Pact invasion of Czechoslovakia indicate that pressure for military action is also growing within the Soviet leadership.

According to a Dec. 3 Reuters wire, Soviet troops on the Polish border have been put on a level-six military alert, the highest level of alert in the Soviet armed forces. NATO sources, however, stated the same day that there was no sign Moscow had taken the actual decision to proceed with their tanks into Poland.

At the same time, East Germany is mobilizing its reservists. The Pentagon also reports that the Soviets are about to begin air combat exercises in the militarily restricted zone along the East German-Polish border. At minimum, these and similar Soviet military moves are functioning as a warning to the Kania regime and Solidarity to keep the situation within certain bounds of control, or else. There are as yet no indications, however, that the Kremlin has taken a decision to intervene militarily, despite scare stories appearing daily in the U.S. press. Characteristic of these was the Dec. 4 article by Victor Zorza appearing in the London *Guardian* and the *International Herald Tribune* announcing that the Soviet Politburo has already decided definitely to issue invasion orders. Only slightly less alarmist was the *Christian Science Monitor* coverage earlier this week citing unnamed Pentagon analysts claiming a Soviet invasion to be a "probability" which could take place within weeks. All this is in marked contrast to the West European press coverage, which has been notable for its lack of sensationalism or grim predictions when reporting on Poland.

The Moczar wild card

A wild card was thrown into the situation with the promotion to the Politburo of Gen. Mieczyslaw Moczar in the course of the Central Committee plenum. Moczar headed Poland's extremely powerful interior ministry during the 1960s before being ousted by Gierek. Enjoying a base among war veterans outside the party apparat and a "Poland first" profile, Moczar has accumulated vast dossiers on party officials. "He is the one who knows where the skeletons are buried," one source commented.

Since Gierek's fall, to which he gave important impetus, Moczar has put himself forward as a defender of Poland's alliance with the Soviet Union and a relative hardliner vis-à-vis the Solidarity union. He would like to convince Moscow that he is the only one who can keep the situation under control while convincing the Poles that only he can prevent a Soviet invasion according to one source.

Whether Moscow has accepted this and is backing Moczar's present promotion has not yet been demonstrated. What is clear is that Moczar's rise is a threat to Kania's continued rule. Kania has removed "at least for the time being" the question marks surrounding his own political future, commented the BBC Dec. 2. But Moczar "is likely to survive many of the existing Politburo members in the event of another purge."

The Arab League summit

A $60 billion economic development plan was approved, and Middle East diplomatic initiatives were outlined.

The Arab League heads of state summit concluded its meeting last week in Amman, Jordan by forging a comprehensive 20-year economic development strategy described in the final communiqué as "a historical turning point in Arab economic progress." Despite the efforts of Syria, Libya, and their allies to undermine the Amman summit by boycotting it, the meeting not only went ahead as scheduled but was a forceful reaffirmation of the recently consolidated Iraq-Saudi-Jordan axis, which, much to the chagrin of Syria, has taken over the leadership of the Arab world.

According to Arab sources, the summit agreed to establish two funds: one valued at $5 billion for low-interest financing for special development projects, and the other capitalized at $60 billion for a 10-year program known as the Arab Development Decade. The $60-billion joint development proposal was shaped along the lines of specific recommendations made at the summit by Iraqi President Saddam Hussein. The main components of the fund include $19 billion for infrastructure, $18 billion for scientific research and technology transfer, $15 billion for agriculture and rural development, and $10 billion for industralization.

The beneficiaries of the 10-year development program will be limited to the poorer, non-oil-producing Arab states. Egypt, which was expelled from the Arab League because of its alliance with Israel under the Camp David accords, is to be excluded as a beneficiary. In the recent period, offers have been made to Egypt by the Arabs of a 10-year $50-billion investment package for reviving the Egyptian economy—proposals that President Sadat has repeatedly refused.

The development program drafted at the summit is being worked out in cooperation with Europe and especially France, which has already signed extensive contracts with Iraq emphasizing technology transfer and nuclear energy development. Close political and economic ties to Europe are viewed by the summit participants as indispensable to overall Arab objectives.

Jordan's Foreign Minister Adnan Abu Odeh said before the summit that such ties will be strengthened by "continuing the dialogue" between the Arab League and Europe. The summit communiqué stressed this point by underscoring "the Arab states' determination to encourage efforts on behalf of the Arab-European dialogue so as to serve mutual interests and achieve more understanding of the just Arab demands, especially with regard to the Palestinian question."

Securing the oil fields

To ensure their economic development plans, the Arab leaders devoted considerable attention to the questions of international stability. Obtaining such conditions is the objective of a newly proposed Arab Security Force, a major topic of discussion at the summit. Saudi Prime Minister and First Crown Prince Fahd put the finishing touches on the plan during the summit. The force is to be supported by troops and weapons from Iraq, Jordan, and Saudi Arabia, and will be cemented by a series of bilateral agreements between Saudi Arabia and the six Arab oil-producing states of the Persian Gulf.

An Arab security force is viewed by the Arabs as providing a safety factor for Arab oil fields, which have long been threatened by the possibility of superpower intervention.

However, the decision to expedite plans for a Gulf security alliance was sparked not so much by the superpower threat as the Khomeini takeover in Iran and the deterioration of Arab security in general brought on by the war between Iran and Iraq. It was in response to such pressures that Saudi Arabia and Iraq formed a mutual defense pact earlier this year.

Decision to dump Khomeini, Assad

According to high-level Jordanian intelligence sources, the Khomeini problem was a focus of attention at the summit by the Saudi, Jordanian, and Iraqi leaders, who resolved to get rid of Khomeini and eliminate Muslim Brotherhood fundamentalism in the region.

It was also resolved, according to the same sources, to do whatever is necessary to remove from power Khomeini's ally President Hafez Assad of Syria.

Assad has grown increasingly isolated and weak inside Syria as a result of his shortsighted pact with Iran and Libya, and is reported to be highly vulnerable to being undermined by Syrian opposition groups, including divergent tendencies within the Muslim Brotherhood, which the Iraqi-Saudi-Jordanian axis is prepared to exploit, according to Jordanian sources.

The sources also noted that the economic development program agreed upon at the summit constitutes the first step toward concretizing the overall economic development commitment of the Iraq-Jordan-Saudi bloc, in cooperation with Europe and, hopefully, the United States. King Hussein, the sources added, "is fully aware of the Bernard Lewis plan to balkanize the Middle East, and is committed to stopping it."

Appeal to Reagan

As part of his effort to prevent the disintegration of the region, King Hussein is making a direct appeal for cooperation with the incoming Reagan administration. In a press conference after the summit, King Hussein urged President-elect Reagan to act on his "tremendous national mandate" by opening "a new American-Arab dialogue" to forge a general Middle East peace agreement.

"The United States now has the opportunity to avoid being captives of previous policies. . . . I'll advise and hope, in view of the tremendous national mandate received by Mr. Reagan, that there will be a new look at all aspects from every viewpoint and interest. If we approach the future with such determination, I believe there are meaningful opportunities on a very wide level; this gives us lasting hope in the future of American-Arab dialogue."

Hussein's gesture of friendship toward Reagan is aimed at convincing the President-elect to break with the unsuccessful Camp David treaty negotiated by the Carter administration. Since its signing in 1978, the treaty has incurred the outspoken opposition of Hussein and other leading Arabs, who see it as a major obstacle to peace in the Middle East.

In an interview with *An Nahar* just before the summit, Hussein warned that allowing the Middle East crisis to go unresolved would heighten the prospects for a superpower showdown. He stressed that a stable Middle East, in which the Arabs can economically develop and provide their own independent security for oil flows, is the greatest contribution to world peace.

The Palestinian issue

The dialogue that the Arab world is initiating with Reagan portends an unprecedented opening into U.S. policy considerations and a place in Middle East peace negotiations for the Palestine Liberation Organization. But this is precluded as long as the PLO allies with Syria in an open challenge to Jordan, Saudi Arabia, and Iraq.

Throughout the summit, Hussein repeatedly rebutted accusations from the radical pro-Iran factions of the PLO associated with Abu Iyad, the number-two man in the PLO, that Hussein is vying to speak for the Palestinians in future talks in place of the PLO. Following his election, Reagan named Hussein as the first head of state with whom he wished to meet. Last week, Hussein agreed to the meeting.

European sources report that PLO chief Yasser Arafat had made a secret agreement with Hussein before the summit that the PLO would participate in future Middle East talks as part of a Jordanian delegation.

To ensure that the PLO does not abandon its alliance with Syria and Libya, Iran's speaker of the Parliament Ayatollah Rafsanjani arrived in Beirut Nov. 27 to discuss "strengthening relations between the Iranian and Palestinian revolutions."

In response to the summit and the firming up of the Jordan-Saudi-Iraq triangle, Iran stepped up its bombing raids on Iraq, especially the Iraqi oil fields in the northern part of the country. Syria also launched a full military mobilization, massing its troops on the Syria-Jordan border in preparation for a war move into Jordan.

King Hussein denounced Syria for its war provocations, while Iraq mobilized an international diplomatic offensive against Assad.

From the communiqué

The following are excerpts from the final communiqué issued Nov. 27 at the close of the eleventh Arab League summit conference in Amman, Jordan.

In the economic field the conference pinpointed the challenges facing the Arab nation, and stressed that confronting these challenges can only take place with effective joint effort within a wider pan-Arab perspective.

In this respect the conference approved a document on the strategy of joint Arab economic action until the year 2000. The document is a historical turning point in Arab economic progress because it sets unity, development, liberation, and integration as its objectives, pursues the policy of pan-Arab planning of the economic sector, and considers integrating development and production as the means for reorganizing, developing, and utilizing Arab sources in the joint economic development sector.

The conference expressed the conviction that pan-Arab security calls for the establishment of a solid economic basis, which can only be achieved through comprehensive pan-Arab development, and pan-Arab security can only be guaranteed through a protective shield of Arab economic achievements.

Out of its belief that the Arab human being is the main objective and instrument of economic development, the conference has given priority to the humanitarian aspect in the Arab economic strategy. This is in order to increase the economic productivity of the Arab human being, to develop his experiences and skills, and to enable him to acquire technological knowhow and at the same time preserve the cultural identity and heritage of the Arab homeland.

The conference expresses the belief that Arab economic integration has become a pressing national objective necessitated by the current phase and the recent developments in the Arab homeland.

Within the framework of this strategy the council adopted a draft contract for joint Arab development to speed up development in the less-developed Arab countries, to reduce the differences in development among the various parts of the Arab homeland, and to achieve continued development to improve individual income. The conference declared the 1980s as the first decade for joint Arab development. For this purpose the conference allotted the sum of $5 billion for the next 10 years, subject to increase in light of needs and capabilities.

The draft contract has as its objective the financing of development projects in the less-developed Arab countries and gives priority to major projects that contribute to strengthening relations among Arab countries and achieving Arab economic integration in addition to raising the Arab people's economic and social standards.

The conference decided that financing shall be easy to obtain and at low interest rates. Saudi Arabia, Iraq, Kuwait, the UAE, and Qatar committed themselves to allocation of the above-mentioned sum. The door will remain open to the other Arab countries that are capable of participating in this contract in the future in light of their pan-Arab commitment.

The conference attached special importance to the role of deposits and Arab revenues and their sound channeling toward integrated investment fields. For this reason the conference adopted the unified agreement on the investment of Arab capital in Arab countries. This agreement represents the main instrument encouraging the private sector's participation in financing Arab development projects and programs on the basis of a sound and accurate balance between the interests of parties concerned in the investment relations and their responsibilities. The agreement also guarantees the continuation of the Arab joint economic action, supports and protects it from transient political crises. The conference adopted the pan-Arab economic action charter with a commitment to the principles of pan-Arab economic integration and to Arab preferential treatment, to keep joint Arab economic action out of politics, and provide a solid platform for the development of the Arab economy and firm steps with confidence in light of higher interests.

Syria's Assad backs himself into a corner

by Robert Dreyfuss

Syrian President Hafez Assad's order this week to mobilize his armed forces for a confrontation with neighboring Jordan marks the final stage of the process of the isolation of Syria.

Despite his reputation for highly astute political maneuver—a necessary trait for someone who has ruled volatile Syria since 1970, longer than any other Syrian head of state—Assad has now backed himself into a situation of near desperation. According to informed Arab sources, Assad probably will not survive through 1981.

In effect, the Assad regime has been defeated by its long-time rival, the Iraqi government of President Saddam Hussein.

The internal crisis in Syria results chiefly from Assad's stubborn refusal to cooperate with neighboring Iraq, which, under Saddam Hussein's leadership, has become the leader of a moderate, nationalist bloc of countries including Jordan and Saudi Arabia. While the Syrian economy has spiraled down into crisis, nearby Iraq has achieved a position enabling it to enter the phase of industrialization.

As a result, Assad has lost the support of the Syrian middle class, merchants, nationalist political leaders, and the traditional religious establishment. Since 1979 his political base has become increasingly narrow, and he now depends exclusively on the Syrian army and internal security forces to maintain power.

Hafez Assad at a bunker on the Golan Heights.

Pressed by such internal problems, Assad has caused Syria to abandon its traditional caution in its foreign policy and to embark on a series of adventurist moves, including:

• the signing of a Soviet-Syrian pact this year that brought Soviet military and intelligence personnel into almost every facet of Syrian political life, and which has put Syria in the position of a Soviet vassal nation;

• Syrian military and diplomatic support for Ayatollah Khomeini's dark ages theocratic dictatorship in Iran;

• the merger of Syria with Col. Muammar Qaddafi's terrorist state of Libya, forming a single nation;

• the raising of tensions in Lebanon, which is occupied by up to 40,000 Syrian troops; and

• actions by Syrian intelligence to raise the level of religious sectarian warfare in the Middle East.

Most of these acts have been taken with the witting collaboration of British and Israeli intelligence.

How has this state of affairs come about?

Assad's Syria vs. Iraq

Both Syria and Iraq are ruled by the Arab Socialist Baath (Renaissance) Party. Originally founded during World War II as a radical nationalist pan-Arab movement, the Baath during the 1960s split into several factions. In 1966, Syrian Defense Minister Salah Jadid and Syria's Air Force Commander Hafez Assad seized power in Damascus and expelled the old leaders of the Baath Party, most of whom presently reside in Iraq.

The Syrian government that took power in 1966 took the position of a leftist, militantly anti-Israel state, a policy that continued when Assad became president in 1970 after a slow-motion coup d'état against President Jadid.

When the Baath Party took power in Iraq beginning in 1968, led by Saddam Hussein, the Syrian branch of the party found itself engaged in a bitter, factional battle with its Iraqi neighbors.

Since 1979, Iraq has emerged as the champion of a plan to modernize the Arab world by using Arab oil revenues in a long-term effort, based on nuclear energy and high-technology capitalization, to develop industry and mechanized agriculture, desalination plants for water, petrochemical, oil refining, and steel plants, along with a sophisticated military-industrial complex.

In contrast, Syria has fallen back on sterile calls for military confrontation with Israel.

In 1978, Saddam Hussein offered to merge Iraq with Syria to form a single nation. To clear the way for the merger, Saddam Hussein took over Iraq's presidency himself and purged dozens of Iraqi officials opposed to a merger with Syria.

According to official Arab sources, Assad was almost convinced of the necessity to join with Iraq. But, these sources report, Assad was blackmailed by certain Syrian political power centers to abandon the merger project. The Syrian president refused Saddam Hussein's offer and launched a vituperative campaign to overthrow the Iraqi government.

Sectarian politics

The center of Syrian resistance to Iraq came from the leaders of the Alawite sect based in northern Syria. The Alawites are a minority bloc in Syria, with a sectarian character akin to Iranian Shiites. Today, most of Syria's political elite is drawn from the narrow Alawite base, including President Assad and his several brothers.

The "Alawite mafia" has now secured an almost total hold over Assad, and it controls Syrian political life. In the Middle East, the Alawite mafia is closely tied to many of the Lebanese extremist Christian Maronite politicians, especially ex-President Suleiman Frangieh, and to drug- and gun-running networks in Lebanon, Cyprus, and Turkey.

Through connections in France and Great Britain, the Alawite mafia—especially including Col. Rifaat Assad, commander of the Special Forces praetorian guard, and Muhammad Haider, chief of the foreign relations bureau of the Syrian Baath—is in liaison with Israeli intelligence.

To maintain its grip on power, the Alawite group exploits Syrian religious divisions by secretly giving encouragement to the outlawed Muslim Brotherhood, which has been responsible for dozens of political assassinations and terrorist violence in Syria since the summer of 1979. By pitting the Alawites against Syria's majority Sunni sect, from which the Muslim Brotherhood is drawn, the Assad regime is both trying to paint the broad opposition to his rule as all falling under the umbrella of the Brotherhood, while rallying the Alawite population to the Assad clique.

It is a dangerous game that cannot last much longer.

Assad's last chance for political survival rests in his making the hard choice of abandoning Syria's present course and seeking a government of national unity. That act would enable leading Syrian exiles to return home in support of a new government under Assad, and to proceed with a merger with Iraq.

But that would mean that Assad would now have to double-cross the KGB (Soviet intelligence), the Mossad of Israel, and MI-5 (British secret intelligence). None of these parties, who have great assets in Syria, are likely to look kindly upon a Syrian switch in policy.

So, for now, Assad is content to join Menachem Begin of Israel in two convergent areas. First, by maintaining a level of controlled Syrian-Israeli tension, both Assad and Begin mutually reinforce each others's regimes. And second, both Syria and Israel have designated Iraq as their chief enemy.

Oil crisis neutralized?

by Judith Wyer

Iraq began pumping its first oil shipments since the outbreak of the Iran-Iraq war the week of Dec. 1. Though the initial exports are a fraction of Iraq's prewar 3.5 million barrels a day (mbd) level, it is expected that within a week Iraq could be producing close to 2 million barrels a day.

The resumption of Iraqi exports has already had a tempering effect on the speculative oil spot market, the habitual barometer of world oil prices. Numerous British press sources had anticipated a new round of oil price hikes at the mid-December meeting of the OPEC oil cartel, in response to the upward movement of the spot market. But Iraq's resumed exports have dampened London's expectations that another oil crisis will be the first order of business for the Reagan administration.

Because of the continued conflict with Iran, which is centered at the head of the Persian Gulf, Iraq has diverted its oil exports through alternative pipelines that terminate in the Mediterranean. Last week, Iraq resumed pumping 500,000 barrels a day through its Dortyol pipeline, which crosses Turkey. The Lebanese daily *As-Safir* reports that Iraq will soon resume exports of up to 1.2 million barrels per day through another pipeline which crosses Syria and terminates in northern Lebanon. Until recently, Iraq's traditional rival, Syria, has refused to grant Iraq transit rights for its oil exports.

The Iranian threat

Since Iraq resumed exports, Iran has intensified an aerial bombing campaign on both Iraq's northern oil fields located near Mosul and Kirkuk, and at Iraq's small port facilities on the Gulf. The Teheran regime is doing its utmost to knock out Iraq's just-repaired pipeline network. Last week, Iranian fighters bombarded Iraq's oil export terminal at Foa on the Gulf, sparking the most intense naval battle in the two-month-old war, that culminated in a fight centered over Iraq's two largest oil offshore platforms. Unconfirmed reports indicate that the damage to the platforms was considerable.

What is at stake in the Iranian offensive against Iraq's oil installations is the survival of the powerful moderate axis of oil producers within OPEC, centered around Saudi Arabia. Since the Iranian revolution, Iraq has backed Saudi Arabia in its efforts to moderate oil prices and contain the so-called pricing militants led by Iran and Libya. The loss of 4 million barrels per day of oil exports caused by the Iran-Iraq war has set back the Saudis and strengthened the radicals.

Abdul Hadi Taker, the head of the state-owned Saudi oil company Petromin, declared this week that his country "sees no reason for a new price hike." This was echoed by the oil minister from the United Arab Emirates, Man Saeed Oteiba. Earlier, a number of OPEC producers including Venezuela and Indonesia had begun to enact small price hikes, as the spot market price for non-contracted across-the-counter oil began to climb to as high as \$42 a barrel. Historically, OPEC members have raised oil prices in retaliation for the oil companies' speculative bid-ups in the selling price of spot market oil during periods of shortage such as the Iranian revolution and most recently, the Iran-Iraq war.

Saudi Arabian Oil Minister Zaki Yamani warned last week that the consuming nations should draw down their massive stocks of crude oil instead of resorting to the spot market for oil lost as a result of the Gulf war. Since then, the European Community officially agreed that its nine members would comply with that demand. That move, plus the impact of Iraqi exports, has had a substantial effect in driving down both the price of crude oil and petroleum products on the spot market.

Oil industry sources indicate that if Iraq can sustain its exports, it is unlikely that OPEC will opt for a major price hike at the Dec. 15 meeting in Bali, Indonesia. Speaking in London Dec. 3, Yamani predicted that individual price hikes may occur, but they will be relatively small, since there is still a net oversupply of crude on world markets. With global demand at a six-year low, market conditions are not ripe for a major price increase.

But Iraq's position is still vulnerable. Iran is within range of again knocking out its Turkish pipeline, and Iran's ally Syria could at any minute renege on its agreement to allow Iraqi oil to traverse its territory. Washington sources estimate that should this worst-case scenario come to pass before the end of the year, a new oil-pricing spiral will occur in early 1981. One source predicted that without Iraq, Saudi Arabia cannot hold the line against the price hawks in OPEC.

Just after the outbreak of war between Iran and Iraq, Saudi Arabia raised its production by 1 million barrels per day to a record 10.5 million barrels per day to offset the shortfall. The Saudis have since attempted to get other nations of the Gulf to follow suit. But the smaller Arab oil producers have been reluctant for fear that the Khomeini regime would retaliate. Two weeks ago, Iranian fighters strafed Kuwaiti territory near Iraq's border. And since then Iran has repeatedly warned that it is prepared to retaliate against any Arab state in the Gulf supporting Iraq in any way.

Socialist leader Craxi attempts to exploit the earthquake crisis

by Mary Sonnenblick

The Socialist president of Italy, working in tandem with the head of the Italian Socialist Party, has used the occasion of the devastating earthquakes that recently struck the south to throw the republic into a constitutional crisis.

Italian President Pertini returned from the devastated earthquake region Nov. 26 to charge that rescue operations were being mishandled. It is unprecedented in Italy for the president to publicly attack the government.

There is no evidence whatsoever of any seismic disaster contingency planning. There was a law enacted on the subject in 1970, but it has never been implemented. After a similar earthquake in the northern Friuli region in 1976, the ruling Christian Democrats (DC) had created a "National Seismic Service", but it apparently exists only on paper.

The inability of the current government, dominated by a Christian Democrat-Socialist Party coalition, to mobilize an effective rescue and relief operation attests to the malignancy infecting Italian society: the commonplace practices of bribery, cheating on public construction and pocketing the difference, misuse and diversion of public service monies. The country's second-largest party, the Communists, charged that shoddy housing construction and cheating on safety standards contributed to the gravity of the disaster.

On Nov. 28, the head of Pertini's Socialist Party, Bettino Craxi, endorsed Pertini's criticisms in an interview to the daily *La Repubblica.*

Interior Minister Rognoni, the man directing the rescue operations, offered his resignation from the cabinet within hours after the Italian president's nationally broadcast statement. Prime Minister Arnaldo Forlani, head of the recently created Christian Democratic government, refused to accept the resignation. Had he not done so, all the press is agreed, the entire government would have collapsed within days.

Strongman

The Craxi interview in *La Repubblica* drew out the implications of President Pertini's accusations against the government.

Craxi charged that an institutional crisis is already a reality in Italy, and the mismanagement of the earthquake rescue operations merely made the fact more evident to the masses of the population. He therefore called for the current parliament to legislate a thorough overhaul of the institutions of the republic.

Craxi's intent in his latest denunciation, and by extension those of his fellow Socialist, President Pertini, were indicated some days earlier by one of the Christian Democratic leaders.

DC faction leader Flaminio Piccoli, summarizing two years' worth of Craxi's activities, told an interviewer for the newspaper *Il Giornale* that there is a new "strongman" on the political scene who wants to return Italy to "a system already condemned by history": fascism.

Though Piccoli did not mention Craxi by name, his interviewer identified the otherwise obvious fact that he referred to none other than Craxi.

Craxi's Socialist Party has been accused of involvement in the 1978 murder of former prime minister Aldo Moro by the terrorist Red Brigades. Police investigations have uncovered evidence of complicity in Moro's murder by PSI leaders, including Giacomo Mancini and Craxi as well.

With the president of the republic now lending himself to the destabilization, the Christian Democracy has closed ranks in attacking the Socialists. Once again, it was Piccoli who issued the most pointed statement, linking Pertini's statements as part of "the design of international masonic groups" who want to take control of the country and remove the Christian Democrats from power.

Oil scandal still gushing?

The Forlani government, a four-way coalition dominated by the Christian Democrats (DC) and Socialists, was already under fire following the eruption of a scandal involving the industry minister, DCer Toni Bisaglia, and two Socialist (PSI) undersecretaries.

The so-called oil scandal involves a network of petroleum product distributors, refiners, and transporters in northern Italy who conspired to commit a giant tax fraud that cost the national treasury at least $2.2 billion over a 10-year period. Seventy people had been jailed at last report, and investigators have said that over 2,000 people may eventually be implicated.

The fraud was perpetrated by falsifying documents to allow gasoline to be transported as home heating oil, which is taxed at a fraction of the rate on gasoline. In Italy, petroleum products must be accompanied at all points in the storage, refining, and transportation process by tax documentation. The system is ostensibly enforced by a special police unit, the Financial Guard.

The tax evasion network was covered up, however, by systematic bribery by oil businessmen of Financial Guard officials, and the politicians that the Guard is responsible to. Industry Minister Bisaglia has been accused of playing a central role in both the organizing of the network and its coverup. Furthermore, the Christian Democratic head of the Senate finance committee is facing demands for his resignation after reports that he buried a report on the network for two years. Two Socialists, both prominent lawyers and undersecretaries in the present cabinet, are accused of accepting bribes from an oil businessman.

Using a disaster

Meanwhile, the death tolls continue to climb in the devastated earthquake region. Army General Antonio Tamburrino contradicted official estimates of the earthquake's death toll—which set 5,000 as the upper limit of those killed—by saying that there were at least 10,000 deaths in the province of Avellino alone.

The president of the Italian Senate, Christian Democrat Amintore Fanfani, in an alliance with Craxi and the N'drangheta mafia, has proposed that the homeless victims of the earthquakes be forced to remain in the devastated area while aid is brought in. The Communist Party leadership and Christian Democrats around ex-premier Giulio Andreotti have called for survivors to be relocated into hotels outside the area until homes can be reconstructed and sanitary conditions established.

If the victims are forced to remain, thousands of the survivors may die. Already old people and young children have begun to die as a result of continued exposure to freezing conditions and with no shelter but hastily erected tents. The predictable spread of diseases has already begun to appear as a result of the filthy, exposed, and undernourished condition of the victims.

It is the confusion and anguish generated within the population by the horror created by the quake which the Socialist Party, under Craxi, is attempting to manipulate for the fascist designs Piccoli has accused them of. By pitting the president of the republic against the prime minister and his cabinet, Craxi has managed a new constitutional crisis.

WEST GERMANY

Dortmund fights deindustrialization

by Luba George

On Nov. 29, the city of Dortmund, West Germany, was the scene of mass demonstrations. Over 70,000 workers, businessmen, and their families mobilized to protest the shutdown of the area's steel industry and to demand that a new high-technology steel plant, now stalled because of recent steel-export quotas issued by the Brussels Commission of the European Community (EC), be built immediately.

The demonstration followed by two weeks the announcement by the huge Hoesch Steel Company that it could no longer implement a 1979 agreement with the trade unions to build a new oxygen-process steel mill that would be one of the most modern and technologically advanced in the world, to compensate the planned layoff of 4,200 steel workers by 1983. Hoesch is planning to shut down some of its older, obsolescent facilities.

Immediately after Hoesch had made its announcement, workers formed a picket line around Hoesch headquarters, carrying signs demanding immediate construction of the new steel plant. Dortmund's mayor had addressed the demonstrators, and compared the Hoesch closures imposed by EC steel-export restrictions to the post-World War II period when the British occupation army tried to dismantle German industry. "We, our wives, and our children lay down on the machines and kept them from being stolen by the British. This time, everyone in Dortmund is willing to do similar things," he said.

The Davignon plan

The fight in Dortmund has become a test for West Germany. This city of 730,000 in the highly industrialized Ruhr area has been, like America's Midwest, consistently disparaged as an agglomeration of "sunset industries." The Davignon Steel Plan, which is the instrument for carrying out the destruction of Europe's "sunset" steel industry, calls for Europe and West Germany to forcibly reduce their steel capacity and exports by 18 percent. The plan is named for Etienne

Count Davignon, head of the EC's Industrial Commission.

Under the Davignon plan, West Germany would have to forcibly reduce its present 44-million-ton production output to 36 million tons, a level barely 50 percent of that reached in 1974.

The plan is being carried out over the opposition of steel companies, trade unions and industrialists, with the same arguments as those used to scrap steel and auto production in the United States. And it is the technologically modern German steel industry that is being hit the hardest.

The modernization question

The city of Dortmund is not simply fighting to stop the destruction of the steel industry, but is fighting for modernization as well. On Nov. 14, the Dortmund City Council passed a resolution demanding not only the construction of the oxygen-process steel mill, but basic improvements in industrial infrastructure to support the continued economic development of the region, including construction of a nuclear power plant and expansion of regional waterways and canals, and the construction of new streets and highways.

Regional press coverage of the Dortmund events stressed the fact that this highly unusual mobilization was clearly favoring high-technology solutions and nuclear energy. The *Westdeutsche Allgemeine Zeitung* played up this nuclear angle in its coverage of Dortmund's mayor, Herr Samtlebe, in his address to the demonstrators during the Nov. 29 demonstration. Under a banner headline "Nuclear Energy must Save Dortmund," the *Zeitung* quoted Samtlebe on the importance of nuclear energy for "improving the competitiveness of the eastern region of the Ruhr" as a whole.

The move to broaden the fight to include nuclear energy development was extended even further by the European Labor Party (Europäische Arbeiterpartei—EAP), which played a pivotal role in the Dortmund demonstration, of which it was a cosponsor. The EAP had challenged the demonstrators to take up a fight for full implementation of the European Monetary System (EMS) as the most efficient means of ensuring that the demands in the Dortmund resolution would be met.

In an open letter to the city leaders welcoming the passage of the City Council's resolution, the EAP urged West Germans to push ahead with the consolidation of Phase Two of the EMS—the European Monetary Fund—so that the necessary long-term, low-interest credits and financing will be available for industrial expansion and exports. The open letter asked to amend the resolution to include a demand for withdrawal of steel-production quotas imposed by the EC Commission and a demand that Phase Two of the European Monetary System be immediately implemented.

The fight currently taking place in Dortmund is not merely a fight for Dortmund's survival as an industrial center of West Germany; it is a fight against the zero-growth and post-industrial Malthusians such as the Club of Rome and the German Marshall Fund, which have targeted Dortmund as a model for deindustrialization for West Germany as a whole.

The actual shutdown of Dortmund's industry began 11 years ago with a wave of steel plant and coal mine closures resulting in over 39,000 layoffs and a permanent reduction of the skilled work force.

Figuring largely in this planned shrinkage of Dortmund is Social Democatic Party (SPD) chairman Willy Brandt, also chairman of the World Bank's Brandt Commission, and long an advocate of "appropriate technologies," i.e., labor intensivity, for the developing sector.

Brandt had initiated several studies calling for the replacement of most of Dortmund's heavy industry with "more manageable" handicraft industries to provide a dependable, labor-intensive, employment base for Dortmund's "overly skilled" population. The objective, according to the Brandt-commissioned studies, was "to literally remake the economic base" of Dortmund.

A May 1980 report by the German Marshall Fund calls for Dortmund to become a model of "planned economic transition"—a euphemism for Brandt's deindustrialization—which it says "is succeeding." The German Marshall Fund report says:

> During this time, Dortmund lost population and the exodus was not discouraged—in fact, it was viewed as an asset. . . . It's a good thing when fewer workers drink more beer than ever before. . . . Dortmund also turned its high unemployment rate into an economic asset. It advertised its large available and trainable labor supply as a source of immediate and future employer satisfaction. . . . Special programs were set up for the female labor force—a tactic that contributed to Dortmund's ability to attract and maintain small/medium-size firms. . . . The program encourages the small [less efficient] low energy-based industries.

The German Marshall Fund's proposals are supported by the Academy for Contemporary Problems based in Columbus, Ohio; the University of Reading, England; and the Deutsches Institut für Urbanistik in West Berlin, Germany. The Institute für Urbanistik has been the coordinator for these "managed growth" and "planned economic transition" programs in West Germany. The University of Reading is connected to the Tavistock Institute in Sussex, England, and has been central in formulating global de-urbanization and deindustrialization plans.

Right-left setup for Reagan on Mexico's southern border

by Dennis Small

On Thanksgiving Day five of the top six leaders of the El Salvadorean political left were kidnapped by 200 soldiers and plainclothes thugs. The next morning their mutilated bodies were found strewn around the capital.

In the wake of the assassinations Salvador's left has promised a full-scale insurrection against the Christian Democratic military junta that governs the country. And the right has vowed to eliminate the entire left and opposition leadership—*before* Ronald Reagan enters the White House on Jan. 20 1981. In a major escalation two days ago, three American nuns and one layman were abducted, raped, and murdered in San Salvador—presumably by an ultra-right death squad.

The murders and ensuing violence have succeeded in knocking out the last possibility of national reconciliation between Salvador's "right" and "left" guaranteeing a civil war which will quickly spread throughout the region.

More strategically significant than the bloodshed and spreading violence, however, is the prospect that the United States and Mexico might be drawn into *opposing sides* of the Salvadorean civil war and could even end up as direct military antagonists in the Central American theater.

In fact the Salvadorean civil war is being triggered in large measure to achieve exactly that strategic goal: to bog down the incoming Reagan administration in a Vietnam-style war in Central America, a war which would minimally destroy all prospects of positive U.S.-Mexican relations and could conceivably set the two nations directly at each others' throats.

The faction in international politics associated with the New York Council on Foreign Relations and the Washington-based Jesuit Georgetown University is acutely aware that if Reagan reverses the Carter administration's Mexico policy fiasco by offering that country oil-for-technology economic accords, then a model will have been created which could be applied to the North-South crisis as a whole. This anti-growth political grouping watched nervously two weeks ago as French Secretary of State for Foreign Affairs M. Olivier Stirn visited Mexican President José López Portillo to propose that France and Mexico collaborate to stabilize Central America and the Caribbean region, and that they establish high-technology economic agreements in areas such as nuclear energy.

In early November the same no-growth crowd gathered in New Orleans to discuss how to sabotage policies like those put forward by the French government. They held a conference entitled "Energy and Security in the Caribbean Basin" sponsored by the Georgetown University Center for Strategic and International Studies (CSIS). One well-informed source suggested to *EIR* that the current wave of Central American violence might well have been pre-planned at this Jesuit-run conference, given the presence of policy heavyweights like Henry Kissinger; David Abshire (head of Georgetown CSIS); Father Robert Henle, S.J. (president of the University of St. Louis); and Ambassador Robert Kreuger (Special Coordinator for U.S.-Mexico Affairs).

Right vs. left Jesuits

The Jesuit connection is most relevant for the Salvadorean case. For the harsh fact of the matter is that El Salvador's civil war is a bloody farce where *both* sides in that battle—which has claimed upwards of 9300 victims so far this year—are politically controlled by the Jesuits.

The Salvadorean junta is run by two of its five members who are top leaders of the Christian Democratic party. They are directly linked to "right-wing" Jesuit networks through the international Christian Democracy of which they are part. The Christian Democratic government of Luis Herrera Campins in Venezuela is the immediate channel through which financing and political marching orders for the junta are given.

Ronald Reagan is also being urged to strengthen the hand of these networks. Junta member and top Christian Democrat Napoleón Duarte travelled to the U.S. last week where he met with President Carter and then talked to Reagan's top Latin American advisers—Jeanne Kirkpatrick, Roger Fontaine, Constantine Menges, and James Theberge. Business representatives allied to Duarte grouped in the so-called "Productive Alliance" only days earlier had met with the same advisers and, according to press accounts, extracted from them a commitment to increased military aid for El Salvador under the Reagan administration.

Many of Reagan's top policy advisers—including Fontaine and Theberge on the Latin American side—come from Georgetown University.

In the meantime the Georgetown crowd has totally unleashed Central America's right-wing terrorists and Ronald Reagan is being credited by the international media for the ensuing atrocities. But as one U.S. official quoted in the Nov. 30 *New York Times* put it, "a lot of barbarism is being carried out in Reagan's name of which he could never approve." The problem, according to one high-placed Guatemalan rightist, is that "no one can be sure what policies Reagan will finally adopt toward the region. So the idea is to present him with a fait accompli."

The opposition to the junta grouped in the Democratic Revolutionary Front (FDR) is also run by Jesuits—albeit "leftist" ones. The FDR chiefs who were kidnapped and killed on Thanksgiving were seized when they assembled in a Jesuit school for a press conference. And they too have been receiving scarcely veiled encouragement from the Carter State Department. In fact, U.S. Ambassador to El Salvador Robert White, in an unabashed effort to fan the flames of civil war, met with Jesuit leaders in the offices of the Catholic secondary school where the murdered leftists were abducted. According to the Nov. 30 *Washington Post*, "White called the killings an 'unspeakable crime' and told the Jesuits, many of whom are closely tied to the left, that 'they do not stand alone.' "

White has gone further. Working with anonymous congressmen and current and former officials at the State Department, the CIA, the Department of Defense, and the National Security Council, White drafted a lengthy "dissenting" policy document on El Salvador which calls for the U.S. government to pull the plug on the junta by recognizing the FDR "as the legitimate political force of El Salvador."

The White paper is designed to encourage the left Jesuits in their suicidal "war of liberation" against the right Jesuit junta.

Another significant feature of the White report is that it attempts to portray Mexico as a fullfledged ally of the FDR and El Salvador's left Jesuits (see excerpts below).

Mexico's role

There is also substantial pressure coming from Mexico's left for the López Portillo government to break diplomatic relations with the junta and give its backing to the FDR or minimally to suspend its oil exports to that country as a sign of protest.

López Portillo, however, seems acutely aware of the trap that is being set. He instructed his Foreign Minister, Jorge Castañeda, to tell the press three times in the past three days that Mexico does *not* plan to either break relations or use its oil weapon against El Salvador.

On Dec. 1, Mexico's Defense Minister Félix Galván López sent a still stronger signal by announcing the most important military exercises ever in the history of the nation. Five thousand troops will stage three days of maneuvers in Mexico's five southeastern states—the area of Mexico which borders with Central America. The Mexicans have also invited a handful of Guatemalan generals to observe the exercises—to drive the political message home, as well as to prove to them that Mexico is neither harboring nor arming Central American guerrillas as the White report claims.

Especially indicative of the Mexican government's degree of concern is the fact that on Nov. 26, President López Portillo sent a bill to Congress which would amend the Mexican constitution to grant the president sweeping executive powers "in the event of a foreign invasion." As the draft legislation explains this would eliminate the Council of Ministers and grant the president the authority to "suspend in all or parts of the country those guarantees which are an obstacle to the rapid and easy deployment" of the nation to confront any threat to its security.

Is such a threat being placed on Ronald Reagan's agenda?

The following excerpts are translated from a Spanish-language version of the document on El Salvador being circulated in Washington by high-level "dissident" elements of the Carter administration. The Spanish language version appeared in the Mexico City daily Excelsior *of Dec. 3, 1980.*

The continuing growth of Mexioo's economy, its oil wealth, and its internal political stability have increased Mexico's prestige as well as its advantages and capacity to influence developments in Central America and the Caribbean. . . .

The PRI [Mexico's governing political party] would like to limit the internal impact the Central American process could have. . . . The PRI feels that the best way to keep these processes from affecting [Mexico's] internal political stability is by recognizing them. . . .

The PRI maintains cordial relations with and recognizes the legitimacy of the Frente Democrático Revolucionario. . . .

A significant percentage of the arms which reach Guatemala and El Salvador comes from Mexico.

Mexico has already indicated to the United States and Venezuela its opposition should they intervene directly in El Salvador. It has shown it is prepared to mount a diplomatic counteroffensive and could link [the issue] to other types of bilateral affairs of interest to the United States.

Middle East Report by Robert Dreyfuss

Why Begin stays in power

Opportunism in the Labour Party and a Soviet KGB faction are two of the reasons.

All opinion polls in Israel show Prime Minister Menachem Begin's popularity to have plummeted to around 20 percent. His ruling coalition is subject to no-confidence votes on an almost weekly basis. The coalition's formal majority in the Knesset has dissipated following the announced defection to the opposition of a member of the National Religious Party.

Why, then, is Begin still in power? Why have early elections not been called?

The immediate answer lies in the calculations of leaders of the Israeli Labour Party. Labour, according to sources familiar with the thinking of its leadership, *wants* to keep Begin in power for as many months as possible, and perhaps even until the November 1981 date for scheduled elections.

According to one source, "Labour intentionally prevented Begin from losing the last two no-confidence votes in the Knesset. [Begin squeaked by by three votes and four votes respectively.] Labour made sure that some of its people stayed away from the vote, or left before the vote was cast, to ensure that the vote was close, and that the dimensions of the anti-Begin sentiment were visible, but to guarantee that Begin would survive."

Several top-level Labour strategists, especially those with close relations with former U.S. Secretary of State Henry Kissinger, also believe that Begin's fanatical policies toward the occupied West Bank can be turned to their advantage.

These Kissinger-linked strategists think that as long as Begin is in power, Labour's own West Bank policies can seem moderate and accommodating by *comparison.* Were Labour itself in power, however, this appearance would soon dissipate, since Labour's policy of territorial compromise in the West Bank has been consistently rejected by the Arab leaders, particularly Jordan's King Hussein.

Referring to Labour's thinking, a U.S. intelligence source commented, "You can't have a soft cop if you don't have a hard cop."

Since he was let off the hook by Labour, Begin has been performing some interesting tricks of his own. He has won to his side, in the short term, a group of minuscule Israeli political parties who fear that they will become extinct if new elections are held soon. This strategy has worked particularly well with the National Religious Party, which fears that recent corruption scandals will doom it in future elections.

Begin is also trying to turn the Labourites' West Bank game on its head—by intentionally setting up a major crisis on the West Bank! Since mid-November, Begin, who is also Israel's defense minister, has ordered Israel's occupying army to commit a string of severely repressive acts on the West Bank, including shooting at unarmed teenage Arab demonstrators and shutting down the territory's Bir-Zeit University.

These actions have fed a mood of radical activism and anti-Israel bitterness in the West Bank, and have played into the hands of a core group of professional agitators around Bir-Zeit connected to that faction of the Soviet KGB associated with British triple agent General "Kim" Philby.

The Philbyites have gladly taken the bait, since they too want to see Menachem Begin remain in power. It is their cynical calculation that as long as the fanatical Begin remains in power, there is a greater chance for radicalization in the Arab world, and hence a greater opening for regional influence by the Marxist-Leninists within the U.S.S.R.

The strange Begin-KGB collusion to stage provocations is evident in the events flowing from Begin's Dec. 1 ban of a scheduled Israeli-Arab Congress called for the weekend of Dec. 6-7 by the Philby-linked Israeli Communist Party.

Prior to Begin's ban, the conference was to be boycotted by most of the Israeli Arab leadership. But Begin's action has given the Israeli Communist Party, or Rakah, greater notoriety and greater potential for support among Israel's Arab population.

As the West Bank-Israeli-Arab game unfolds, Begin thinks he will beef up his tough nationalist image of nontolerance for Arab radicalism among Israel's voters. Rakah and its comrades on the West Bank can bask in the publicity accrued from leading an anti-Begin revolt. And Israel's population can thank the sly opportunism of the Israeli Labour Party for the resulting chaos.

Is Hank the most popular candidate?

A new poll on the 1982 presidential race has put the country on edge.

Although several months remain before the classic *destape*, in which the governing PRI party's presidential candidate is unveiled, political jockeying, patronage-seeking, and opportunism are already the order of the day here in Mexico.

This week a major controversy erupted around the publication of a poll taken by the Mexican Public Opinion Institute, a branch of the Acción Comunitaria (Acomac) political group which listed Labor Minister Pedro Ojeda Paullada as the leading presidential candidate. Second place went to Planning Minister Miguel de la Madrid, and third went to Interior Minister Prof. Enrique Olivares Santana.

But the most outrageous thing about the poll was its naming Carlos Hank González as the "most popular" candidate. Hank, the appointed mayor of Mexico City, is first of all barred from consideration for the presidency by the Mexican constitutional provision blocking sons of immigrants. Second, Hank is widely known to be one of Mexico's less popular politicos.

Why did Acomac go out on a limb?

Less than 24 hours after the poll was published, Fidel Velázquez, the powerful chieftain of the Mexican Labor Confederation (CTM), declared that this poll was nothing more than a poor imitation of the tactics used in the United States. Mexico's labor boss added that the *destape* schedule would *not* be sped up by such political pressures. "Nobody speeds us up; the PRI decides when and where," asserted Velázquez, who runs the PRI's labor base.

He was undoubtedly particularly peeved at the way the poll put Ojeda Paullada as the front runner, exposing him as the prime target of everyone else in the race. Velázquez is thought to favor Ojeda Paullada.

Despite Velázquez's warning, all of Mexico's media jumped into the fray. Some press analysts made fun of the fact that the poll said that Miguel de la Madrid (who enjoys business backing) was also the preferred candidate of the Communist Party. Leon García Soler of *Excelsior* preferred to query whether the pollsters had even read the constitution before including the ineligible Hank, let alone making him the "most popular." "José López Portillo does know it" (the Constitution), Soler warned.

Standing out among all the columnists was the well known ex-Jesuit priest who now works with the *Uno mas Uno* paper and *Siempre* weekly, Miguel Angel Granados Chapa. Granados went out of his way to resuscitate Commerce Minister Jorge de la Vega Domínguez, the former governor of Chiapas, who came in sixth in the poll. "De la Vega has the most complete record of all the cabinet members thought to be in the presidential race. It is comparable to that of the interior minister, although he [Prof. Olivares] has weaker links to the academic sector than De la Vega."

Another political column in the daily *El Sol* (which often has served the cause of Zionism in Mexico) is also promoting De la Vega. *El Sol* describes his latest speech as "putting him back at the front of the race, ahead of the pack. He has now stood up and is willing to return the blows he has been systematically resisting."

Amidst this avalanche of "futurology," as it is called in Mexico, one rightly wonders who runs Acomac anyway.

From information in the public domain, plus exclusive intelligence gathered by *EIR*, we know that Acomac is a group which emerged from a section of the business community headed by businessman Roberto Guajardo Súarez.

Guajardo is part of the Christian Democratic apparatus in Mexico, and has extensive contacts and strong sympathies for the Jesuits. His activities have run from "right" to "left" over the years.

As for Acomac itself, one of its major theses is that the Mexican state has "sold out" to multinational companies, and that the Global Development Plan is nothing but fairy tales.

Many recalled Acomac's 1978 polls, in which it forecast that the Mexican Communist Party (PCM) would get 20 percent of the vote in a fair election. In fact, one of the cofounders of Acomac, Mr. Luis Sánchez Aguilar, is today working closely with a new leftist magazine called *Di*, which is run by a former top leader of the PCM.

Not surprisingly, *Di* ran the Acomac poll in its entirety, and maintains an editorial line of strong support for Hank González.

International Intelligence

Socialist International meets in Washington

Over 1,500 high-level European and American members of the international Social Democracy met in Washington, D.C. Dec. 5-7 to discuss "Eurosocialism and America." Local control and environmentalism will be a chief topic. Participants are to include Sweden's Olof Palme, France's François Mitterrand, and Britain's Anthony Wedgwood Benn, as well as German Social Democratic chairman Willy Brandt. The program was assembled by the German Marshall Fund.

Americans in attendance will include union leaders, Institute for Policy Studies fellows, Rep. Ron Dellums (D-Calif.), and economist Gar Alperowitz. The size and location of the conference are unprecedented.

According to leaders of the U.S. Democratic Socialist Organizing Committee, plans are under way to drive conservatives out of the Democratic Party and turn it into a "proletarian" party under tight control.

Brazil shafts mineral speculators

The Brazilian government has begun to crack down on foreigners who amass huge minerals concessions in order to speculate with them. The first to feel the get-tough-policy have been two shadowy operations that have acted as though Brazil were their personal fiefdom.

The government blocked Daniel K. Ludwig's transfer of 9 bauxite deposits, worth $3 billion, to Alcoa in late November on the grounds that it would give Aloca control of 25 percent of Brazil's bauxite and that Alcoa would not use the reserves for at least a dozen years. The government also charged that Ludwig and Alcoa had deliberately understated the volume of the reserves to fool the Brazilians.

A few days later, a federal judge annulled two of the 517 prospecting concessions held by Brascan, half-owned by the Canadian Bronfman family. The judge stated that the Bronfmans had violated Brazilian laws permitting only 5 claims per metal per company, by setting up "phantom" companies nominally run by Brazilian nationals.

The judge noted that the Bronfmans had an extraordinary interest in accumulating gold sites such as the two he annulled, which they had held for two years without doing any prospecting.

Edgar Bronfman was in Brazil Nov. 9-14 to lead a World Zionist Organization congress which organized an offensive against the Brazilian government's policy of permitting free speech to anti-Israeli Arab causes.

France bidding on Indian industrial complex

The French government informed the Indian Minister of Steel and Mines, Pranab Mukherjee, Nov. 13 that France "is willing to offer the same terms and conditions as those offered for the east coast aluminum project" for construction of an iron pelletization plant in Mangalore, India, whose cost is estimated at 455 million francs.

The east coast iron ore complex has been stalled because its financing originally came from Iran, which since the advent of the Khomeini regime has cancelled its support for the buyback project.

France's offer, which is part of the agreements concluded by President Valéry Giscard d'Estaing during his January 1980 visit to India, contains the same credit terms as France made for the Orissa aluminum project.

Financing would be handled equally by the French government and Crédit Lyonnais. The government loan bears an interest rate of 2.5 percent, while the bank loan would be 7.5 percent for 8 years. Crédit Lyonnais is also offering 85 percent of the project costs, while Lurgi Paris is promising the remaining 15 percent through $50 million in Eurodollar loans.

While France's bid is the first significant offer made to subsidize this project, Romania, the Soviet Union and Canada are also reportedly interested.

Indo-European business looks to third countries

A two-day conference on cooperation between West European contractors and Indian engineering firms interested in subcontracting work was held Nov. 24-25 in Paris.

The conference discussed co-tenders and co-contracting in engineering projects in third countries, especially the Middle East and Africa. 173 European companies attended the meeting and a high-powered team from India including Khurshid Alam Khan, minister of state for commerce, and T. K. Dave, economic envoy to Western Europe, were called upon to present India's capabilities.

The conference was given a high profile by India, in contrast with their usual low-keyed approach. A six-page supplement in *Le Monde* as well as a 12-page advertising supplement in the European edition of *Time* magazine was put out by the Indian firms. The Indians seem determined to brief Europe on the precise engineering and construction skills that can be exported from India.

Chinese army officers growing restive

The Deng Xiaoping regime in China has been put in the position of having to publicly denounce certain army officers for opposing its policies. As one Canton newspaper editorialized: "Some comrades have allowed their misunderstanding of the party's policies to become openly expressed doubts and even opposition, none of which can be tolerated any longer."

Many of the officers reportedly object to the current trial of the generals who were associated with Lin Piao for an alleged 1971 assassination plot against Mao Tse-tung. According to the *Los Angeles Times,* the generals not only believe they were justified in opposing Mao and the Cultural Revolution, but they object to being lumped together with Madame Mao and the Gang of Four.

Marshal Ye Jianying has refused to attend a memorial rehabilitation ceremony for Liu Shaoqi, the head of state ousted during the Cultural Revolution who is regarded as Deng's mentor.

Syria may be near civil war

Opposition to President Hafez Assad of Syria has brought the country to a point of near civil war, according to Arab diplomatic sources. The Syrian air force was recently deployed against armed groups in several Syrian cities, these sources say.

Leading the rebels are members of the Arab Baath Socialist Party, different factions of which control both Iraq and Syria. The anti-Assad groups in the Syrian Baath party are said to be receiving Iraqi support, along with anti-Assad communist and religious groups.

The Muslim Brotherhood, which has been blamed by President Assad for promoting much of the trouble inside Syria, has recently concluded an agreement with the Assad government, these sources added. The Muslim Brotherhood is said to believe that if Assad collapses, then a pro-Iraqi government would take power with a determination to eliminate the forces of the Brotherhood in Syria.

Nigeria scores Libyan ambassador's 'meddling'

Senior Nigerian government officials have told the London *Times* that the Libyan ambassador to Nigeria is likely to be declared persona non grata soon. The Nigerians reported that the diplomat, Abdulkaddin Sharafeddin, has a Nigerian mother, was brought up in Nigeria, and was a wealthy businessman in northern Nigeria before he was named ambassador in 1975.

They charge that he took advantage of this ambiguous position, using diplomatic immunity indiscriminately to, among other things, secretly recruit mercenaries to fight in neighboring Chad on the side of the Libyan-supported faction in the civil war there.

The Nigerian government is also concerned about links between Libya and the Greater Nigerian People's Party, which rules Borno state on Chad's border. Nigerian displeasure with Libya became public following reports that Libyan aircraft were using Borno state as a base for bombing raids into Chad. The Nigerian government is sponsoring a diplomatic initiative this month to try to resolve the Chad civil war.

Terrorists advising the World Bank?

An internal policy study paper commissioned by the World Bank on the Philippines labels President Ferdinand Marcos's position increasingly "precarious" and blames his alleged overemphasis on industrial development for the problems. The report warns of the dangers of the World Bank putting its imprimatur on Marcos and his program.

Though ostensibly written by an inhouse consultant on leave from Johns Hopkins named William Ascher, reliable sources state that most of his 14-page memo was a compilation of the work of others. Most prominent among the sources was Bee Ean Gooi, a student of Raul Manglapus, the head of the opposition group Movement for a Free Philippines (MFP).

Marcos has charged the MFP with being behind the spate of terrorist bombings in the Philippines. Miss Gooi not only supplied much of the material for the memo but participated in a World Bank seminar held Dec. 5 reviewing the memo.

Briefly

● **THE CARTER** administration, "as part of its effort to get the 52 American hostages released," has given "prior consent" to Iran's purchases of arms from several European countries, the New York *Jewish Week* reported Nov. 30, citing Israeli sources who say Israeli munitions have been resold to Iran through Europe.

● **HORST HEROLD,** head of West Germany's domestic security service, the Bundeskriminalamt, has resigned following a campaign against him from both left and right. Herold was responsible for rounding up 390 terrorists of the 499 on the government's wanted list; when government security official Siegfried Buback was assassinated by terrorists, he reportedly vowed, "I will get them all." His opponents included the liberal weekly *Der Spiegel* and Interior Minister Gerhard Baum of the Free Democratic Party.

● **NUREDDIN KIANURI,** the secretary-general of the Iran Tudeh (Communist) Party, praised "all Imam Khomeini's adherents" for "following a radical anti-American line" in a Nov. 30 interview with Budapest TV. Kianuri avowed that "Imam Khomeini's line represents the interests of the destitute, the unemployed, the poor peasants, the landless peasants, and the middle peasants." Asked if this meant the communists support the mullahs, he said, "Yes, but we call them religious fighters."

● **PRINCE SALMAN,** governor of Riyadh, recently met with leaders of the emigré Saudi student opposition group, the Voice of the Vanguard, to discuss "how the Saudi regime could meet their demands," according to Dr. Joseph Malone, a British-trained Washington specialist on Saudi Arabia who is close to radical Islamic Shiite groups in the region.

House Majority leader: Volcker bankrupting U.S.

by Barbara Dreyfuss

A revolt against the policies of Federal Reserve Chairman Paul Volcker broke out in the House of Representatives on Dec. 1. The story of this revolt, blacked out of the nation's press, is an *EIR* exclusive. The congressmen who have declared their determination to reverse the depression policies of the Federal Reserve include House Majority Leader Jim Wright of Texas and deputy Democratic whip Bill Alexander of Arkansas.

More than nine congressmen representing districts from the Mississippi delta to the Midwest industrial heartland have assailed Volcker in daily attacks. In addition to Wright and Alexander, these congressmen include six other Democrats—Tony Coelho (Calif.), Paul Simon (Ill.), Carroll Hubbard (Ky.), Ron Mottl (Ohio), Bill Nelson (Fla.), and James Oberstar (Minn.), and one Republican, Timm Lee Carter (Ky.).

The statement characterizing the mood of the revolt was Jim Wright's declaration, who charged Volcker with increasing inflation, not abating it.

Bipartisan potential

These congressmen have felt increasing pressure from their constituents, outraged over the Fed's cutback in credit to critical industries including auto, housing and construction. The Federal Reserve has forced interest rates up by 4 percentage points since Election Day alone.

Pressure on these congressmen increased when they returned to their districts during the Thanksgiving recess at the end of November. "Be assured that this past Thanksgiving holiday season, while in Kentucky in my own district," declared Representative Hubbard, "I did hear from hundreds of people concerned about high interest rates and their inability to borrow money and about their inability to make payments on money they may have borrowed in the past."

This fight to oust Paul Volcker and ensure adequate credit for industrial expansion provides a basis for the working relationship between the Democratic House and the Republican administration, as Jim Wright indicated when he stated: "If the new President can gain control of the Federal Reserve Board and let it understand who has been chosen to run this country as Harry Truman did, he will be a hero and deservedly so."

Former Democratic Party presidential candidate Lyndon LaRouche, Jr. has asserted that the fight to reverse Federal Reserve policy must become the basis for bipartisan collaboration. In a pamphlet titled "Action Policy for Rebuilding the Democratic National Committee Around Bi-Partisan Economic Policy," being circulated to the DNC and leading Democrats, LaRouche calls on Democrats to shape the economic program of the Reagan administration and prevent the Republicans from launching an economic austerity program à la British Prime Minister Margaret Thatcher. President-elect Reagan "has placed greater emphasis on seeking bipartisanship than any recent President-elect. If we properly respond to that extended hand, we can have an important influence on the first 100 days."

A number of conservative Democrats are seeking to

Majority leader Jim Wright.

use the fight against Volcker as the basis for orienting the Democratic Party away from the discredited economic programs of the Carter administration which resulted in the Republican landslide in November.

Bill Alexander, who has helped lead the attacks on Volcker, is a spokesman for a group of moderate Democrats in the Congress. The deputy whip is attempting to forestall the election of a new Democratic Party chairman by the Democratic National Committee (DNC) until the House Democratic Caucus can review the credentials and policies of all prospective candidates.

In a resolution to the House Democratic Caucus calling on the DNC to wait before choosing a new chairman, Alexander declared that the "elected members of the United States House of Representatives have expressed a profound concern for the future of the Democratic Party . . . and have expressed a significant concern for participating more directly in the policy formulation function of the Democratic National Committee." Capitol Hill sources say that he wants to prevent the badly defeated liberal wing from controlling the party because of inaction by conservatives and moderates.

NDPC proposals

Lyndon LaRouche, now chairman of the advisory board of the National Democratic Policy Committee, declared in his Action Program that the way to rebuild the defeated Democratic Party would be around development of a "bipartisan national economic policy." "The most efficient pathway for rebuilding the presently dismayed national Democratic Party as an effective force and that quickly, is to reshape the image and activities of the Democratic National Committee, such that that body serves in fact as an efficient policy-formulating forum for the national and state party organizations as well as the constituency forces of the party more generally."

"If we muster an appropriate set of proposals for bipartisan national economic policy, Mr. Reagan will certainly take such offers of cooperation into account in shaping what he proposes to set into motion during that crucial initial period of his administration. . . . If we provide the national institutions of the Democratic Party with such an efficient role as I have suggested here, that fact by itself will quickly rally the constituency forces of the Democratic Party back to the Party's national as well as state organizations."

Specifically, LaRouche proposes that these programs include tax reductions to stimulate industrial expansion, a two-tier credit system, promotion of high-techology capital-goods exports and development of improved industrial technologies.

Three prominent New Jersey Democrats, including a former congressman and members of the 1980 Democratic Rules Committee and Platform Committee, have signed a telegram to the DNC urging support for a "bipartisan economic and monetary policy package" and declaring that "toward this end we see a good deal of merit in the policy proposals put forth by former presidential candidate Lyndon LaRouche."

What Democrats say

The following are excerpts from statements made Dec. 1 on the floor of the U.S. House of Representatives.

House Majority Leader Jim Wright (D-Texas)

The nation's economy has been staggered by high interest rates. During the month of November the prime rate has jumped four times. . . . With each jump more small businesses have closed their doors. With little apparent reason the Federal Reserve Board has deliberately encouraged this upward spiral of interest rates. This not only has choked off economic growth, it seriously endangers many businesses of long succeessful standing. Because of record-high interest rates, business failures are up 64 percent from the relatively high level of failures suffered in 1971 according to Dun and Bradstreet. High interest rates have just made it harder to get into debt. They have made it practically impossible to get out of debt. They have crippled home-building industry, auto industry, small businesses and consumers everywhere. Even First Pennsylvania Bank has fallen victim to high interest rates. Otherwise healthy companies like White Motor, Korvettes, and Braniff are suffering because of the interest rates. The highest profit return in healthy industry is 24 percent. If the prime rate goes to 20 percent, most businesses simply cannot stay in business. Certainly they cannot expand to employ more people. Completely on their own and without any recourse to peoples' elected representatives in Congress or to the administration, members of the Federal Reserve Board have taken it on themselves to plunge this country into a recession. It is not fair to the incoming administration, it is not fair to the outgoing administration. Most of all it's not fair to the country. The Federal Reserve is not elected by anybody, apparently its members feel they are not answerable to anybody. If the new President can gain control of the Federal Reserve Board and let it understand who has been chosen to run this country, as Harry Truman did, he will be a hero and deservedly so. If he cannot, heaven help us all.

Rep. Bill Alexander (D-Ark.)

The voters on Nov. 4 sent a clear and unmistakable message that the economy and inflation are the preeminent concern of most Americans. One of the principal causes of inflation is the criminally high interest rate policy now being imposed by the Federal Reserve. This policy does not reduce demand by producers, by farmers, and by manufacturers across the country. Farmers, for example, must borrow to produce regardless of the cost of credit.

Our economy depends to a large extent on its ability to grow. Growth depends on capital investment and consumer demand. With our present inflationary environment it has become clear that individual consumers and business will gladly pay higher rates of interest in order to acquire goods and services today which they perceive will cost even more tomorrow. If individuals and businesses come to accept the notion that the price of money is an open-ended cost of doing business, which can be passed along to the consumer, then we can expect mounting pressure for increased income to meet the burgeoning costs of living. That, Mr. Speaker, is the essence of the inflationary wage-price spiral. . . . I believe it is time to reassess the Federal Reserve's policies of raising interest rates to restrict the supply of money. The evidence is becoming overwhelming that inflation is in fact increased, rather than dampened with each new elevation of the federal discount rate.

It is time also, Mr. Speaker, for the Federal Reserve to distinguish between producer credit and consumer credit. In a credit-deprived economic environment, industrial growth is inhibited and the productive components of our economy are disadvantaged. This leads to contraction of our industrial and agricultural output with all the attendant ills of unemployment, diminished income, decreased revenue for governments at all levels, and the necessity for increased federal outlays for income support.

Rep. Ronald Mottl (D-Ohio)

Mr. Speaker, for nearly 14 months the Federal Reserve Board had pursued a policy of ignoring steep interest rate increases as it tries to dampen inflation through control of the money supply. Yet today we still have double-digit inflation, while the prime lending rate is again edging toward that record-shattering level of 20 percent that we endured last spring. The economy needs most what the Fed has failed to deliver—reasonably low and predictable interest rates, so businessmen and consumers alike can borrow and spend.

I have therefore written to Federal Reserve chairman Volcker, asking that he resign. Hopefully the new administration will learn from the disastrous experiments of the old.

Rep. Tony Coehlo (D-Calif.)

Actions by the Federal Reserve to restrict the money supply and supposedly curb inflation seem instead to be contributing to inflation. Higher interest rates are passed along as a cost of doing business so that consumers pay more for products and services instead of doing without. The housing industry and auto industries are being devastated by high interest rates, just at a time when both were beginning to recover from the last round of high rates. . . .

Rep. Carroll Hubbard (D-Ky.)

We have not had the cooperation we should have had from the Federal Reserve Board. I question the policies of the Federal Reserve Board and the need to continue to increase interest rates.

Rep. Timm Lee Carter (R-Ky.)

Mr. Volcker, there is no doubt about it, is a good man; he believes in the brotherhood of man, the fatherhood of God, the neighborhood of New York City, and 20 percent interest rates.

The following telegram was sent to the Democratic National Committee by Helen Riley, Democratic Party Platform Committee member, 1980; Emory Zold, Democratic Party Rules Committee, 1980; and former Rep. Henry Helstoski:

Our party must develop and be able to present to the Reagan transition team a draft bipartisan economic and monetary policy package which is consistent with the vital national interest that Mr. Reagan has declared himself committed to satisfying and which corrects the potentially disastrous policy errors within the Reagan camp, mostly identified with "Friedmanism." We must learn from the administration's toleration of Paul Volcker's "Friedmanite" policies—and we must do so and assure that Reagan does so, before our national economy and the welfare of our party's constituencies are wrecked.

Toward this end, we see a good deal of merit in the policy proposals put forth by former presidential candidate Lyndon LaRouche. Such controversy on issues of policy as LaRouche proposes, is critical to the strength of the party and the nation.

Below is an excerpt from the newly released document, "Action Policy: Rebuilding the Democratic National Committee Around a Keystone Posture of Proposing A Bi-Partisan Economic Policy" by Lyndon H. LaRouche, Jr., chairman, Advisory Committee, National Democratic Policy Committee:

Resolved: There are four most prominent areas in which the Democratic Party seeks bipartisan agreement on economic and related matters of national policy with the incoming administration of President-elect Ronald Reagan. These four areas of policy making are:

1. Taxation policies
2. Credit, banking, interest-rate policies
3. Promotion of expanded world trade
4. High-technology retooling of basic industry and agriculture. . . .

1. Taxation Policy

Tax reduction should occur in three categories, as follows:

1. Substantial increases in the per capita exemption for members of households.
2. Substantial increases in tax credits for depreciation, amortization, and depletion of capital improvements of productive capacities of industry and agriculture and generous policies for encouraging capital gains from research and development.
3. An ingenious and long-overdue added tax incentive to savers.

2. Interest-Rate Policy

Establish a two-tier credit system.

1. Enlarge the capacity and operations of the Export-Import Bank, providing large volumes of low-cost credit to exporters.
2. Open the capacity of the Federal Reserve System to act as lender of last resort.

3. Promotion of World Trade

The possibility of a sustained economic recovery in the United States and other OECD nations depends upon increasing the volumes of high-technology capital-goods exports imported by so-called developing nations.

4. Promotion of Technological Progress

We emphasize that in the last analysis advances in the productive powers of labor require increasing the ratio of energy usefully transmitted by productive capital to the muscle-energy of workmen. It is improved technologies for energy production and distribution, combined with improved productive technologies for deploying that energy, which enable national productivity to rise.

Rep. Bill Alexander *told the House Dec. 3:*

As the total money supply is expanded, the value of our currency is diminished accordingly, unless there is commensurate expansion of tangible wealth. In recent years the growth of the money supply has outstripped the growth of tangible wealth as represented in the productivity indices.

The Federal Reserve high cost of credit policy makes no distinction between credit for productive and non-productive purposes. Credit used for productive purposes—manufacturing, agriculture, mining, utilities, transportation—aids the formation of capital and facilitates the expansion of tangible wealth, resulting in economic growth. High credit for no productive purposes—the examples are well known to all who have spent money we do not have by using a credit card—is clearly inflationary.

I suggest that the Congress has not only the authority but the responsibility to set guidelines for the Federal Reserve to modify its policies in a way which recognizes the essential differences between inflationary and non-inflationary credit.

Jim Wright *elaborated to the House Dec. 3:*

The Federal Reserve, in its perverse wisdom, has proved that a 20 percent interest rate will not halt inflation. Perhaps they believe that some still-higher interest rate will do so. Indeed, it is said that a guillotine will cure a headache; by that logic perhaps the Federal Reserve knows what it is doing. . . . In October 1979 the prime rate was 14.5 percent. By April 1980 the prime rate had jumped to 19.5 percent, just about the level we are approaching today. Between those dates, and during the rise in rates, business failures increased by 40 percent and business bankruptcies climbed 50 percent. What will it take for the Federal Reserve to realize that high interest rates are not the cure for inflation but the cause of inflation?

PROFILES

'The Knife': Caspar Weinberger

Both former HEW head Casper Weinberger and former NATO General Alexander Haig have been prominently mentioned for Reagan cabinet posts. EIR *provides their records in past administrations.*

"In the West Wing of the White House, in the office directly above Henry Kissinger's, sits a slight, gracious man with an abiding interest in music, Shakespeare and English history. On the wall behind his desk is a nineteenth-century painting (on loan from the National Gallery) of General Sir Thomas Pickton, one of the Duke of Wellington's top commanders. On the wall near the doors are portraits of his two heroes: former British Prime Ministers William Pitt and Winston Churchill. Incongruous as it may seem, this outwardly gentle history buff who once studied to be a concert pianist, is one of the most feared men in Washington."

With portraits of two of the British Empire's greatest defenders adorning his walls, it should come as no surprise that Caspar Willard Weinberger, the subject of this description from *Duns Review* in December 1972, is an ardent proponent of the British economic and political system.

A native of San Francisco, born Aug. 18, 1917, Weinberger went East to Harvard for college and received his LL.B. in 1941 from Harvard Law School. After a stint in Army Intelligence, Weinberger became a law clerk in Federal Circuit Court from 1945 until 1947 when he joined a prominent law firm in San Francisco.

In 1952, politically ambitious Weinberger was elected on the Republican ticket to the California State Assembly. His career in California politics included chairing the state Republican Party and serving as a campaign director for George Christopher's 1966 gubernatorial primary run against Ronald Reagan. After Reagan's election, Weinberger was appointed head of the Commission on California State Government Organization and Economy, and in 1968, over the protest of Reagan's conservative advisers, director of state finance.

Nixon's mistake

In 1970 Weinberger was called to Washington by his former California political colleague Richard Nixon to head the Federal Trade Commission. The FTC at that time was under severe attack from Ralph Nader's Raiders, who charged that the agency was too pro-business. Within two months of taking office, Weinberger hired one of Nader's assistants as a personal legal aide, and proceeded to make "consumer protection" the dominant activity of the commission.

When Nixon set up the Office of Management and Budget, he appointed George Shultz as director and Weinberger deputy director.

When an agency head would come to Shultz to appeal a cut in his budget, he would be greeted by the director and then taken over to Weinberger's office. At this point, Shultz would depart with the comment that became infamous throughout the bureaucracy: "I leave you now to the tender mercies of Cap Weinberger."

Weinberger, who by this time had earned the nickname "Cap the Knife" for his budget-slashing propensities, did not, as many believe, merely cut away at the "Great Society" programs launched by the previous two Democratic administrations. Instead, he went right for the core of the U.S. economy. The space program, the leader in scientific research and civilian applications, got the sharp edge of Weinberger's knife.

In the spring of 1972, when Shultz went to Treasury, Weinberger was promoted to director of OMB and continued his budget-cutting rampage. In November he was nominated by Nixon for Secretary of HEW. Despite some congressional protests, he was confirmed on Feb. 8, 1973.

Weinberger's basically Malthusian outlook became more apparent during his stint at HEW. As a member of the U.S. delegation to the 1974 U.N. World Population Conference in Bucharest, Weinberger repeatedly averred that excess population is the prime cause of the world's economic problems. Weinberger urged that the conference set "a world goal of replacement level of fertility by the year 2000." In addition to being a member of the Trilateral Commission, Weinberger is a leader of the California Episcopal Church, and a member of the Bohemian Club.

'The Paperclip': Alexander Haig

Although Gen. Alexander Haig has spent the last several years cultivating a tough-talking, hard-line military image, the fact is that the former NATO Supreme Commander is an employee of the policy circles that have been primarily responsible for America's military and industrial decline.

Alexander Haig is a personal protégé of Henry Kissinger, but he also owes his climb up the political power ladder to self-styled "doves" Cyrus Vance and Joseph Califano—both members of Jimmy Carter's cabinet.

Reagan transition team member John Lehman, who worked closely with Haig at the National Security Council, reports that "Haig is a good friend of James Schlesinger, Joe Califano and Cy Vance. Haig is personally very, very close to Cy, and they think very highly of one another. In fact, the main influences on Haig have been Fritz Kraemer, Gen. Creighton Abrams, Califano, Vance and Kissinger. And, he was trained at a Jesuit prep school, which gave him a very logical turn of mind. Haig still has a very close relationship to Kissinger. They talk all the time."

Haig's entire career has depended on the intervention of influential people. Unable to obtain admission to West Point because of a poor school record, the young Haig attended Notre Dame until his uncle, Col. Chester R. Haig, formerly the personal physician to General Pershing, used his connections to get his nephew into the military where he was graduated 214th out of his 1947 graduating class of 310.

Then, in 1964, he came to the attention of then Secretary of the Army Cyrus Vance, who named him special military assistant. When Vance was appointed deputy secretary of defense, he took Haig with him; in 1964-65, Haig served as special assistant to both Vance and Defense Secretary Robert McNamara.

In 1969, Vance's close friend Joseph Califano, who at the time was general counsel to the army, introduced Haig to Henry Kissinger, who was then in the process of organizing his national security council staff. Kissinger hired Haig as his principal assistant, turning over to him all the day-to-day details of running this key White House unit. From this base, Haig catapulted himself, with the aid of Kissinger and other White House insiders, into becoming Acting President of the United States during the last phase of Nixon's presidency.

Because of Haig's desire for the limelight, Haig was quickly able to acquire a controlling position within the NSC. According to *The Final Days*, an account of the Nixon administration's last days by *Washington Post* reporters Woodward and Bernstein, Haig soon became "almost indispensable" to Kissinger. "He provided order, discipline, predictability. . . . Pure military decisions bored Kissinger. Haig handled them for him."

The book also documents Haig's chameleon-like character: "When he was around Kissinger, Haig took great care not to flaunt his relationship with Nixon. . . . To Kissinger and his aides, Haig sometimes referred to the President as an inherently weak man who lacked guts. He joked that Nixon and Bebe Rebozo had a homosexual relationship, imitating what he called the President's limp-wrist manner. And around the men [Haig] . . . cultivated in the Pentagon, he complained about Kissinger's temper tantrums, his dishonesty, his disorganization, his reluctance to offend the weak-livered eggheads he had associated with in academia. These men thought Haig trusted them because he was willing to share such harsh judgments with them."

In 1973, Haig earned the contempt of traditional U.S. military circles when, through Kissinger's intervention, Nixon made him a four-star general over 240 senior generals. Nixon named Haig—a man who had never commanded troops in battle—to Army vice-chief of staff; 25 senior generals were forced into retirement on the same occasion. It was thus that Haig became known variously as the Armchair General and the Paper-Clip by old-line military types.

But Haig's departure from the White House was temporary. On May 4, 1973 Haig became "interim assistant to the President," and on Aug. 1 White House chief of staff.

Over the next year, Haig—who had personally been responsible for putting many of the infamous White House wire-taps on Nixon's opponents—worked closely with Kissinger to exacerbate Nixon's sense of isolation and paranoia. Former Vice-President Spiro Agnew blames Haig directly for convincing Nixon to oust him. In his memoirs, Agnew charges Haig with employing hints of blackmail and death threats to force him to resign, and notes correctly that the forces behind Haig and Kissinger wanted to replace Agnew with a vice-president more acceptable to them before going in for the kill on Nixon.

In exchange for Haig's expert assistance in destroying the Nixon presidency, Kissinger persuaded his latest acquisition, President Gerald Ford, to deploy Haig to head up NATO.

From this new power base, Haig proceeded to launch his own public political career. Positioning himself as an opponent of the Carter administration's military and foreign policies, Haig had made it an open secret by 1978 that he intended to run for the Republican presidential nomination.

Among the first newspapers to publicize Haig's alleged qualifications to lead the United States were the London *Times* and the London *Daily Telegraph*. In the United States, Nelson Rockefeller, Pittsburgh's Heinz family (linked directly to the Trilateral Commission and the Anglo-Dutch Bilderberg Society), Boston Brahmin banking circles, the oil majors and trade-union operative Jay Lovestone were instrumental in pushing Haig to the forefront, as was the Federal Union, an organization founded by Rhodes Scholar Clarence Streit to build for a one-worldist "federation of the democracies."

According to W. Scott Thompson, a defense analyst at Tufts who belongs to the London-based International Institute of Strategic Studies, the Haig for President gambit was predicated on a "massive military crisis that would so panic the American population that they would beg for a strongman to lead them. Haig would appear as the man on a white horse who could get the United States back on track." The failure of such a crisis to materialize deep-sixed Haig's presidential ambitions—at least for the time being.

The Halbouty report on energy: recommending a growth perspective

Considerable attention is being given to a possible new approach to the vital question of energy under the incoming administration of President-elect Reagan. On Nov. 5, by prior agreement, the Energy Policy Task Force placed on Reagan's desk a 41-page policy outline for his consideration.

The chairman of that 17-member body, Michel T. Halbouty, was then asked to remain as head of the Energy Transition Team. With the caveat that this is merely the recommendation of a transition team and not final policy of a President or even his energy secretary, I print below substantial sections from a full copy of the Halbouty Report just made available to "The Energy Insider."

Four years ago, Mr. Carter assembled his energy task force. Policy was drafted by people such as James Rodney Schlesinger, the RAND Corporation strategist who mapped energy policy into a zero-growth scenario drafted by S. David Freeman and others at the Ford Foundation.

The immediate comment that can be made about the new group is the dramatic difference in the nature and quality of the Reagan policy advisers. Michael Halbouty is a geologist and petroleum engineer from Houston, Texas who has done exploration throughout the United States.

W. Kenneth Davis, who drafted the nuclear policy portion of the report, is vice-president of the Bechtel Power Corp. and a man with years of experience in the nuclear industry.

Others include John Bookout of Shell Oil, Bernard O'Keefe of EG&G, Robert Quenon of Peabody Coal, and Prof. John McKetts, who oversees one of the nation's largest privately funded fusion research programs at the University of Texas. In short, people at least rooted in problems of energy production, rather than think-tank strategists of the Schlesinger-Sawhill stripe. Here are some of their recommendations:

The policy theme

"It is our great fortune to be one of the richest energy nations in the world. Yet, judging by our current economic condition, who would know it? . . . The government has acted on the principle that the way to deal with energy is to do away with it. Instead of unleashing the resources of a wealthy nation, we have, in the name of saving energy for some unspecified future time, tucked energy away like a rare bottle of wine. But energy in this nation is not rare or scarce. The U.S. has the potential to produce as much oil and gas in the future as we have produced in our entire history. . . .

"The policies expressed in these pages value energy as a commodity to be used, not to be revered on the mantlepiece. By undoing the restrictive legislation of the past four years, we expect to create an open and competitive energy market that will meet the demands of our economy. . . . If the national economic pie does not grow—and it cannot grow without energy—those at the bottom of the economic ladder cannot rise without pulling someone down from the top. . . ."

Oil and gas

"Despite all the nation can do to conserve energy, increase the use of coal and nuclear power, and develop new energy resources, oil and natural gas will still be called on to supply at least 60 percent of our energy wants in 1990. In place of the hostility and antagonism toward the petroleum industry which now exist, government must adopt a more positive, or at least objective, role. One key to a new attitude is utilizing personnel with experience in the oil and gas and other energy industries in the government's energy agencies.

"The Carter administration, under presumed conflict of interest, has made a virtue of having policy personnel who have had to spend much of their tenure attempting to understand how the industry works. The results have been predictably disastrous."

On foreign policy toward OPEC exporters, the report is brief: "We must develop a clear and consistent foreign polcy to stabilize and improve relations with oil exporting countries."

On domestic policy, the central point made is to underscore the need for removing years of restrictive government price controls to allow the exploration and development of the vast underdeveloped oil and gas reserves of the country:

"We should continue the orderly phase-out of all price and allocation controls on crude oil and petroleum products to completion on September 30, 1980 as scheduled." This is merely a reaffirmation of presidential policy determined by Carter in 1979 as part of his Camp David energy summit. "We must begin phased price decontrol of all natural gas prices. . . . Under the Natural Gas Policy Act, most intrastate gas prices will be decontrolled by 1985, as will some interstate gas prices.

"However, 'vintage' interstate gas (i.e., gas from wells drilled prior to February, 1977 and gas from most offshore wells on federal property leased prior to 1977) will not be decontrolled. Natural gas prices should begin phased decontrol over a short time period so that all gas prices are decontrolled as soon as possible."

Challenge to RARE

The report calls for reversing the restrictive Carter-Andrus policy forbidding resource development on the vast acreages of public land. "Our public lands offer an enormous petroleum potential, but nowhere is the threat of excessive environmentalism to the nation's energy development felt more keenly than in the area of access to and development of these lands, both onshore and offshore. . . . Absolute prohibitions on exploration and production in promising areas are a luxury we can no longer afford. Rather, careful development of productive areas is a national necessity. We must return to the nation's historic policy of multiple use for most federal lands."

This is a direct attack on the controversial RARE II and related policies that have been used to remove millions of acres in Alaska and the continental United States, especially in the Western states, from economic development under the rubric of "wilderness" or similar nature restrictions.

The recommendations for oil and gas policy go on to call for a review of the range of restrictive environmental and other laws such as the Endangered Species Act, National Environmental Policy Act, Offshore Continental Shelf Lands Act amendments of 1978, and others "to ensure that their provisions are compatible with the need to increase oil and gas production. . ." The recommendations on the Windfall Profits Tax, the $227.3 billion wellhead tax imposed earlier this year to restrict capital flows resulting from crude oil price decontrol, are straightforward. Noting that as structured, the tax "discriminates against the domestic development of conventional petroleum resources," it states that "this will lead to misallocation of the nation's resources, resulting in lower future domestic oil production and higher costs to consumers. Economic use of our nation's resources dictates that we should eliminate the Windfall Profits Tax. If this is not practical immediately, then the tax must be restructured and passed out on an accelerated basis."

Recommendations specifically include: "Eliminate the Windfall Profits Tax on newly discovered oil, heavy oil, incremental oil and stripper oil. If the Windfall Profits Tax on newly discovered oil cannot be eliminated, it is recommended that a plowback provision mechanism be established to encourage exploration in undeveloped 'wildcat' areas. The Windfall Profits Tax on all other oil production must be phased out at an 'accelerated rate.' " Original Carter administration calculations, using a $25/barrel base price in 1979, structured a tax which would raise the $227.3 billion by approximately 1990. Then presumably the tax would expire as the "windfall" would be long past. More current estimates, according to sources close to Capitol Hill, show that the $227.3 billion will have been raised by about 1985. It is likely that the tax will be amended to require automatic expiration once this occurs. As of now, such is not the case.

Defining conservation

Conservation, the report states, unlike current practice, will come from market pricing mechanisms, not government quotas on consumption of energy: "The basic guideline in establishing effective conservation programs should be to rely as much as possible on voluntary actions by the private sector, and to keep mandates to a minimum." In this vein, the report criticizes the mandated Department of Energy conversion of electric utilities to coal: "It is inequitable (and useless) for the Department of Energy to mandate utility conversion to coal so long as the Environmental Protection Agency maintains unrealistic coal-burning omission standards. Full price decontrol of oil and natural gas will quickly encourage widespread conversion if such impediments are removed." However, "An absolute ban on utility use of gas is unwise. . . . Finally, limited gas use can significantly increase our ability to burn coal with less air pollution."

Next week we will take up the nuclear, coal, and synthetic fuels recommendations of the Halbouty Task Force Report.

National News

Abscam targets convicted after lame defense

Representatives John Murphy (D-N.Y.) and Frank Thompson (D-N.J.) were found guilty Dec. 3 on charges stemming from the Justice Deparment's "sting" against constituency-based politicians. They face up to 22 and 9 years respectively. Both will appeal.

The initial reaction of informed observers was to question the legal handling of the case, especially by Murphy's lawyer, Michael Tigar. The Murphy case was regarded as the weakest among the Abscam stings, with clear indications of entrapment, yet the defense did not argue entrapment.

A week ago, two convictions of Philadelphia congressmen were overruled by Federal Judge John Fullam because, he stated, the Justice Department had stretched federal statutes and entrapped the defendants. The Fullam decision was not brought up in the Murphy-Thompson trial.

Two U.S. policies mooted toward Europe

President-elect Reagan, in an interview with West Germany's popular weekly magazine *Quick* released Dec. 4, said that his top priority was to bring the U.S. economy back into shape; an America that is economically and politically strong will protect Europe better than any new treaties, he added. He said that he is willing to negotiate arms agreements with the U.S.S.R., however, and would meet with Leonid Brezhnev.

Asked about U.S. relations with West Germany, he commented that they have deteriorated under the Carter administration, particularly as the U.S. government was unable to deal with inflation. This will change beginning in January, Reagan declared. He said he did not think he would appoint Henry Kissinger as secretary of state, but that it was too soon to answer such questions.

Kissinger himself, visiting Bonn and Paris, gave an interview to the Paris daily *Le Figaro* stating that the notion that economic development produces stability is false, as the Iran situation showed. Kissinger said that Europe cannot have its own independent Middle East policy, and theatened that a Euro-Arab preferential relationship on oil supplies would lead to the "destabilization of the region."

Democratic senators switch committees

Senate Democrats routinely ratified Majority Leader Robert Byrd as the next minority leader on Dec. 2. However, big changes occurred on the Senate committee front. Rather than choosing to become the ranking minority member on the committees they had chaired, most former chairmen have made another committee their point of emphasis.

Edward Kennedy, outgoing chairman of the Judiciary Committee, has chosen to become ranking member on the Labor and Human Resources Committee, widely viewed as an appropriate base for 1984 presidential race. Former Labor Committee chairman Harrison Williams of New Jersey is now ranking member on the Senate Banking Committee, and Joe Biden of Delaware will be ranking on the Judiciary Committee.

Senator calls for expanded space program

In a speech before the U.S. Senate Nov. 17, Sen. Strom Thurmond (R-S.C.), demanded more funds to continue America's space program.

"This past week, on Nov. 11-13, the world was treated to a spectacle made possible only by an unsurpassed triumph of American science and technology. The resolution of the centuries-old mystery of Saturn's rings, the study of its atmosphere-shrouded giant moon, Titan, and the discovery of three new moons have allowed all mankind to share in an experience akin to those of Columbus, Magellan and other great explorers who have stood, for the first time at the frontiers of knowledge. This feat was possible because of American vision and commitment to the advancement of knowledge and understanding.

"A strong and vigorous civilian space exploration program like this puts the very best face of American science and industry forward to the world, and helps us maintain the engineering talent and industrial base that we would have to turn to in time of national emergency."

Thurmond warned that there are no further NASA programs planned beyond the late 1980s satellite probe of Jupiter. He called for new NASA programs to include sending cameras close to Halley's comet. "We can add the Halley intercept mission to our fiscal 1982 plans and once again affirm to the world in a spectacular and dramatic way that American leadership in high technology stands unsurpassed at the frontiers of knowledge."

New GOP leadership confirmed in Senate

Republican senators caucusing on Dec. 2 completed the initial stages of reorganizing the Senate. Howard Baker of Tennessee and Ted Stevens of Alaska were elected as majority leader and majority whip without opposition.

The only contest in the Republican Caucus was over the Conference chairmanship. Conservative Jim McClure of Idaho ran against Eastern moderate John Heinz. McClure, who ran for the post unsuccessfully in 1978, and handily beat the Pennsylvanian by a 33-20 vote. The Conference is the long-range policy-formulating body for Senate Republicans.

Heritage journal on environmentalism

In the latest issue of *Policy Review*, journal of the Washington-based Heritage

Foundation, William Tucker writes that environmentalism is a "Tory phenomenon," basically an expression of "aristocratic conservatism." The movement is not fueled by "conspiracies," he writes, but by an alliance between "the good families" and the "college-educated, white-collar workers."

Tucker, who is a contributing editor of *Harper's* magazine, states that there is "a hard core of truth in the worries which environmentalists express. . . . Environmentalism without elitism is a legitimate goal of the American political system."

UAW to reaffiliate with AFL-CIO?

The United Autoworkers will act soon on a proposed reaffiliation with the AFL-CIO, UAW President Douglas Fraser has announced. The move is expected to spur ongoing merger talks between the UAW and the International Association of Machinists (IAM), an AFL-CIO affiliate. The autoworkers' union is also conducting preliminary negotiations with the United Rubberworkers.

The reaffiliation, coupled with the mergers, could fit in with efforts by Fraser and IAM chief William Winpinsinger to push labor into a confrontationist posture against the incoming Reagan administration. Fraser has on occasion threatened "class war" against what he terms "right-wing reaction."

Grain embargo's future still uncertain

The Carter administration's embargo against grain sales to the Soviet Union came under challenge as the Canadian government announced that 2.1 million metric tons of wheat and barley have been designated for shipment to Moscow between January and July 1981.

The announcement came two weeks after a meeting of the major grain-exporting nations in Australia, where a shaky agreement was reached to maintain limits on the amount of grain to be sold to the U.S.S.R. in 1980-81.

One of the main factors in the Canadian decision was an announcement of major U.S. grain sales to the People's Republic of China. Australia and Canada have both expressed concern, having previously been the PRC's main suppliers. The Canadians also noted that lifting restrictions on sales to the Soviets will increase revenue to Canadian producers by $3,000 per farmer.

The U.S. Congress recently rejected a measure to cut off funds for administering the embargo, leaving the incoming administration to make a decision. Ronald Reagan's opposition to the embargo was a prominent theme in his campaign, but it is unclear if and when he will actually terminate the ban.

Trade unionists support attack on Volcker

Four trade-union leaders from New York and New Jersey sent a telegram of support to House Majority Leader Jim Wright (D-Tex.) after learning of the congressman's attack against Federal Reserve Chairman Paul Volcker.

In their statement, the union leaders declared, "We thoroughly and wholeheartedly support your call for an end to the Federal Reserve dictatorship of austerity and recession. Without a doubt we agree that an institution 'not elected by anybody' has no rights to 'take it on themselves to plunge the country into a recession.' We support any and all efforts to reverse the Fed's disastrous policies and strongly urge that they begin with the resignation or removal of the Federal Reserve Chairman, Paul Adolph Volcker."

The statement was signed by Bernard Jackson, vice-president of UAW local 906 in Mahwah, New Jersey, Guy Wedgeworth, president of UAW local 980 in Edison, New Jersey, Grace Salata, UAW president of Ronson Electric in Woodbridge, New Jersey, Jessie Mayers, president of UAW local 9-4525 in New Jersey, and Frank Hewes, treasurer of Adirondack Steel in Adirondack, New York.

Briefly

● **THE SENATE'S** Permanent Subcommittee on Investigations, which has carried out a year-long attack on the Department of Labor and the Teamsters Union, may change its focus under its probable new chairman, Republican William Roth of Delaware. Roth may be interested in using the subcommittee to investigate government waste and fraud rather than as a "McClellan Committee," as Sam Nunn, a Georgia Democrat, has done.

● **ORRIN HATCH** of Utah, the incoming chairman of the Senate Human Resources and Labor Committee, who said recently that he would like to steer clear of confrontations with labor, may be headed for one. Hatch told the *Engineering News Record* that he plans to introduce an amendment to the Hobbs Act that would open labor leaders to prosecution for extortion for certain strike activities. Labor leaders say such amendments could be used to curtail the right to strike.

● **THE ENVIRONMENTAL** Protection Agency's fiscal authorization, H.R. 7018, incorporates an important safeguard against capricious and unscientific actions by the agency. Inserted by Rep. William Wampler (R-Va.), it mandates peer review by non-EPA scientists to evaluate the validity of evaluations of chemicals.

● **WILLIS HARMAN,** head of the Stanford Research Institute's Center for the Study of Social Policy, told *EIR* that "the Aquarian Conspiracy," of which he is a founder, "will create real trouble for Ronald Reagan. We'll see great divisiveness over the course of the administration when the Aquarians rally people against Reagan's outmoded progrowth attitudes."

Science & Technology

CT scanner cuts total medical costs

by Vin Berg

CT or computerized tomography scanners are a highly sophisticated X-ray device that can take a 360 degree picture of the human body. Where in use, they have permitted dramatic improvements in diagnostic therapy because, with far more accuracy than other methods, they can reveal physical conditions previously impossible to detect without complex, expensive tests or invasive exploratory surgery.

But at $835,000 per device (for the latest model), the CT scanner has become the subject of a campaign by the "cost efficiency" experts at Health and Welfare, at Hugh Carey's New York and other health service agencies, and the health insurance industry.

In fact, since it is rather easily demonstrated that CT scanning is a net profitmaker from the standpoint of the savings that result in terms of diagnostic accuracy, diagnostic speed, avoided tests, and cancelled surgeries, the cost accountants' attack on CT is utterly incompetent, even in their own terms. CT scanning exemplifies the way new technology in medicine works toward making all health care more efficient and less expensive.

Computerized tomography scanners "cut" the cranium or body like a surgeon's instrument. A single slice can reveal the pancreas, aorta, inferior vena cava, retroperitoneum, lower liver, and upper kidney poles together, in great anatomical and visceral detail. CT device X-rays are passed through the body or the head at many different angles, representing different views within a single cross-sectional plane. This "slice" of the body is photographed around 360 degrees, with computerized computation presenting a recognizable image.

X-rays may be absorbed, deflected, or left relatively unaffected by various bodily tissues. The image is a matter of differentiations in brightness of portions of the body, in turn a function of the degree of X-ray absorption. These variations are recorded by scintillation detectors or an ionization chamber, much more sensitive than X-ray film, permitting lower duration and intensity of radiation. The electrical signal or current is amplified, the data digitized by computer and transformed into an image by a series of complex equations.

Within only a few years, CT scans have progressed from an average of 4 to 5 minutes per "slice" to 1 to 2 seconds in the latest generation machine. At the point that this is reduced to one-tenth of a second or less, it will be possible to CT scan the constantly moving heart—a major breakthrough. Most estimates are that within five years, CT scanners will be capable of generating images in mere thousands of a second.

A CT scanner can detect density differences of no more than 0.5 percent, with image accuracy in the 90 to 98 percent range for most organs and conditions. By comparison, conventional X-rays can detect differentiations in bodily tissue density of 5 to 10 percent.

For example, the CT scanner can discriminate between a brain tumor and an infarct (damaged or dead tissue). It is particularly effective for intracranial hemorrhage diagnoses—for which exploratory surgery is extremely costly. In one hospital employing CT, the result was a 94 percent reduction in craniotomies for head trauma.

CT body scans, meanwhile, are highly accurate for the lungs and pleura, the liver, gallbladder and biliary tract, the pancreas, the urinary tract, the adrenal glands, lymph nodes, bone mineral content, pelvis, and the aorta and other major vessels. One recent report indicated that operations were cancelled as a result of CT scans in 27 percent of the patients for whom surgical procedures were scheduled. Moreover, in 20 percent of patients undergoing diagnosis for neurological disorders, a CT scan led to complete change in treatment strategies in 15 percent, and partial changes in treatment and medication in another 20 percent.

A CT scan is without parallel in revealing how advanced cancer is or how effective radiation therapy or chemotherapy have been.

At present, however, there are only 1,300 to 1,400 CT scanners in use in the entire country. Fortunately, while HW, and health services agencies subject to HW "cost effectiveness" guidelines, can prevent any hospital, public or private, from installing a CT scanner through a complicated proof-of-need statement, they lack the power to prevent doctors in private practice from purchasing the new device. Over 70 percent of new orders for CT scanners reported by major manufacturers like Pfizer have come from private-practice physicians and radiologists. In fact, many hospital doctors have formed their own private partnerships to purchase CT scanners—solely in order to "rent" scans to their own and other hospitals that have been denied the technology by government "rationing."