EIR

Executive Intelligence Review

December 30, 1980 $10.00

Who's pushing for $100-a-barrel oil

Senators join the anti-Volcker revolt

Mexico announces national energy plan

Power vacuum in Iran: will Bani-Sadr or the military replace the ayatollahs?

[THIS PAGE IS INTENTIONALLY BLANK]

Executive Intelligence Review (ISSN 0273-6314) *is published weekly by New Solidarity International Press Service 304 W. 58th Street, New York, N.Y. 10019. In Europe: Campaigner Publications, Deutschl. GmbH. + Co. Vertriebs KG Postfach 1966, D. 6200 Wiesbaden*

Second-class postage paid at New York, New York and at additional mailing offices.

POSTMASTER: Send address changes to New Solidarity International Press Service, 304 W. 58th St., N.Y., N.Y. 10019
Subscription by mail for the U.S.: 3 months—$125, 6 months—$225, 1 year—$396, Single issue—$10 Academic library rate: $245 per year

EIR

From the Editor

This week's Special Report, "Power vacuum in Iran: will Bani-Sadr or the military replace the ayatollahs?" relays the news that, for the first time since the shah's downfall, there exists a coalition within Iran potentially strong enough to rid the nation and the world of the subhuman Islamic fundamentalist regime. Middle East Editor Robert Dreyfuss, his staff, and our Paris bureau, have assembled exclusive information from multiple factions in the Iranian exile community and from intelligence sources in the United States and Europe, who see the *Executive Intelligence Review* as the only major outlet for the truth about what is going on in Iran.

Since the imposition of Khomeini on that country the *EIR* has dedicated itself to providing the necessary intelligence to groupings inside and outside Iran to attain the overthrow of the Dark Ages terrorists there. We hope that the incoming Reagan administration will, in the best interests of the United States and its allies, reverse the Carter-Vance-Brzezinski policy of negotiating with the ayatollahs and their Muslim Brotherhood controllers, and, as popular upsurge mounts against them in Iran, will devote itself to liberating the Middle East from fanaticism and bestiality.

In this issue we also provide an overview of the recent maneuvers on the part of Khomeini's allies, the OPEC price hawks, and the British strategists who are setting their pace. The strengths and weaknesses of Mexico's new domestic energy plan are analyzed. And, in the National section, I want to point out our exclusive update on anti-Volcker activity around the nation, along with outspoken political analyses by Nancy Spannaus and Warren Hamerman.

Robyn Quijano

EIR Contents

Departments

EIR will observe its usual custom of omitting one issue of the magazine during the holidays.

Economics

Volume 8 Number 1 December 30, 1980

Special Report

Abolhassan Bani-Sadr (r) and the Ayatollah Khomeini in Teheran. Photo: Sygma

International

National

A declaration of national emergency?

by David Goldman

An economist with close personal ties to Treasury Secretary-designate Donald Regan describes the Washington scene as "up for grabs," following a Dec. 17 statement by a Reagan spokesman that the President-elect is "seriously considering" a declaration of national emergency after inauguration. In some press discussions, the "national emergency" formula has been identified with the Republican group around Rep. Jack Kemp, with reference to a report that Kemp and OMB Director-designate David Stockman (R-Mich.) submitted to the transition team last month. The memo, entitled, "Avoiding a GOP Economic Dunkirk," was made available to *EIR* by Republican sources.

Ready-made emergency

Although the Kemp-Stockman statement became a point of departure for public airing of the issue, the fact is that Federal Reserve Chairman Volcker has already ensured that the new administration will face emergency conditions upon taking office.

The interest-rate skyrocket will force a severe economic downturn during the first quarter, with the predictable disastrous consequences for the Treasury's tax base. Once the real economic collapse enters the expected second phase, interest rates will fall off, provoking a crisis in the foreign exchange markets as the dollar falls off sharply. The terms of the emergency are already set, however Reagan chooses to qualify it.

At this point, it would be useless to dissect Reagan's cabinet choices in order to obtain hints of what future policy will look like. Merrill Lynch Chairman Donald Regan was chosen by process of elimination, after Reagan and his team refused to accept hard-line followers of Milton Friedman like former Treasury Secretary Bill Simon or Citibank Chairman Walter W. Wriston, rather than for any special policy objective.

Regan has publicly defended the Fed's high interest-rate policy as the price of inflation—although high interest rates are a principal *cause* of inflation—but other Reagan spokesmen have indicated the opposite during the past week. Edwin Meese, the transition team's chief spokesman, said Dec. 17 that interest rates had risen too much and that the new administration would take some (unspecified) action to bring them down, a vague but important nod to the growing lynch climate in the country against Fed Chairman Volcker.

The Austrian school

Volcker's perspective was summarized by the Austrian economist Friedrich von Hayek in a recent interview, in which he stated: "Sooner or later you must go through this very unpleasant process of stopping inflation, incur all the exceedingly painful consequences—temporary large-scale unemployment, numerous bankruptcies—in a period of something like six months *and get it over with before opposition can organize sufficiently* *to force you to stop the process."*

The Federal Reserve's objective, as *EIR* reported in a Dec. 16 cover story, has nothing to do with containing inflation, which it is in good part responsible for. Rather, the Fed foresees a gigantic fire sale of American assets devalued both by depression and by the relative decline of the dollar. The package that accompanies the 20 percent-plus interest rate, including the so-called International Banking Facilities, banking deregulation, electronic funds transfer through the New York Clearing House, and other plans treated in depth in the cited *EIR* cover story, facilitate this design.

The mooted declaration of national emergency would either be a vehicle to carry off a Hayekian "stabilization crisis," in the academic euphemism, "before opposition can organize sufficiently to force you to stop the process," or to stop the crisis before it gets under way.

This is the context in which to understand the Kemp-Stockman memo. Were the report followed to the letter, the aging Friedrich von Hayek would have a second opportunity to write books praising and defending a world depression. Two parameters show how the Kemp-Stockman proposals would create a blowout if adopted as written. One is monetary policy; the second is energy policy.

First, "President Reagan should meet with [Fed Chairman] Volcker or the entire Federal Reserve Board at an early date and issue them a new informal 'charter'—namely, to eschew all consideration of extraneous economic variables like short-term interest rates, housing market conditions, business cycle fluctuations, etc., and to concentrate instead on one exclusive task: bringing the growth of Federal Reserve credit and bank reserves to a prudent rate and stabilization of the international and domestic purchasing power of the dollar," the memo concludes.

The above contains in a nutshell the proposal circulated by Louis Lehrman, a possible appointee to a high treasury post, who has gotten in with the Kemp group. As *EIR* noted in some detail last week, the Lehrman plan is acknowledged to imply a Hayekian crisis. After the interest-rate cycle has created self-feeding credit demand (see Domestic Credit), slamming the brakes on monetary expansion as proposed above would blow out the economy—especially if, as Lehrman proposed, the Fed makes discount window credit available only at a punitive interest rate.

Although Lehrman, whose family made its fortune through a drugstore chain, sold this plan handily to the Kemp "supply-side" group, close Lehrman associates think it too deflationary to be acceptable. Although Lehrman sold it as a proposal in the tradition of the great French economist Jacques Rueff, its generic name is Austrian School.

Second, Stockman took as a given—a month before the latest OPEC $10-per-barrel price rise—a jump in the oil price of that magnitude. Stockman insists that these price increases must become a tax against consumption: "Demand for these basic commodities is highly inelastic in the very short run; and this generates strong credit demands from both the business and household sectors to finance existing consumption levels without cutting back on other expenditures. If the Federal Reserve chooses to accommodate these credit demand shocks, as it has in the past, then in the context of the massive federal credit demand and financial market disorders . . . only one result is certain: the credibility of monetary policy will be destroyed. The Federal Reserve will subsequently succumb to enormous internal strife and external pressure, and the conditions for full-scale financial panic and unprecedented global monetary turbulence will be present."

Bottom line

The bottom line of the "new charter" that Reagan should, in Stockman's view, issue to the Fed, is that "insulation of the Fed from extraneous economic and financial preoccupations, political pressures, recalibration of its monetary objective, and restoration of its tattered credibility is the critical linchpin in the whole program." As for energy prices, Stockman not only believes they will rise, but includes the impact of a big oil-price rise in his tentative budget estimates through the additional revenues available through the windfall profits tax.

While Stockman argues that the only cure for the out-of-control federal budget is economic growth, his monetary and energy demands could only deepen the present depression!

"Elimination of deficits and excessive rates of [government] spending growth can only be achieved by sharp improvements in the economic indicators in the next 24 months," to reduce $26 billion of what Stockman calls "soup-line expenditures" and broaden the treasury's tax base. Almost all the report, except for some of the substantive proposals, centers around this argument that only economic growth can work. What Stockman proposed to stimulate growth—a 10 percent tax reduction which will not even compensate for the inflation-linked rate of increase in taxation—is a less than convincing counter to the brutal energy and monetary policies cited earlier.

But it would be foolish to dismiss the *tone* of the report as irrelevant. The sharp insistence on economic growth, however much at variance with the substantive proposals, tells us something fundamental: that this is the basis for any reasoned discussion with President-elect Reagan. That is more important than any particular proposal at this stage of the game.

The gameplan for U.S. auto

by Richard Freeman

Peter Solomon, a partner in Lehman Brothers, Kuhn Loeb investment bank, reported Dec. 5 that "as many as 400,000 jobs will be lost in the auto industry by 1983." He added that "counting the related industries of steel, aluminum, and rubber, I think residual unemployment could top 500,000." The precision of Solomon's view on this subject reflects the fact that he had just returned from five months of formulating the auto industry's "revitalization plans" as cochairman of the Treasury Department's Auto Industry Task Force for the Carter administration.

According to an informed source close to the Department of Transportation, the plans and legal framework are being drawn up to sell off pieces of a bankrupt Chrysler Corporation.

Whether this policy will be pursued under Ronald Reagan is the central question for the auto industry. If that happens, the auto industry will not survive, at least in a recognizable form.

What is most important is that the auto industry's destruction is not primarily the result of mismanagement, or of the public's car preferences, but of economic warfare. The auto industry's Big Three—Chrysler, GM, and Ford—have been the targets of interest-rate escalation, oil-price shocks and government-mandated environmental standards which, as I documented in the Dec. 9 issue of *EIR*, are heaping huge capital expenditures onto the auto industry's retrenching cash flow.

Selling off Chrysler

The Washington source reports, "Chrysler's loan guarantee stipulates that it must have a profit in the fourth quarter of 1980. That condition and other conditions of the federal government-guaranteed loans for Chrysler have not been met. There is a discussion going on inside government as to whether for political reasons Chrysler should be let go."

The source confirmed that "Chrysler is for all intents and purposes bankrupt, even by the technical definitions. It has negative equity; that is, Chrysler's retained earnings are larger in the negative than Chrysler's stock is worth. If you look at it, Chrysler really went through a Chapter 11 Bankruptcy reorganization for the first time in the fall of 1979 when it applied for the loan guarantee. The guarantee was for money that Chrysler was supposed to use for capital expenditures. But Chrysler is so desperate they are using the $800 million they have drawn down of the loan so far as working capital."

This appraisal must consider the fact that in submissions to Congress, Chrysler has already reported that it will cut its operating capacity by half as part of its operating plan. This includes shutting down 20 of the 40 Chrysler plants on the North American continent.

But reports are being widely circulated that unless Chrysler can meet the terms of the government's stipulations on Chrysler's latest application to draw down another $400 million of the government's $1.5 billion loan guarantee—there is $700 million of the loan guarantee remaining—Chrysler will have to sell off parts of the remaining 20 plants that are not slated for closing.

Chrysler's loan guarantee

Chrysler has been hanging by the skin of its teeth since the autumn of 1979, when the groundwork was laid for its $1.5 billion government-backed loan guarantee. The guarantee covered some of the loans Chrysler already had outstanding, and also provided coverage for some new credit lines that Chrysler would seek from banks.

From the outset, those familiar with the auto industry characterized the loan guarantee as a fraud. Chrysler needed low interest rates, relaxation on Naderite standards, and an investment tax credit, as well as the accelerated tax credit (i.e. tax-payment deferral) Chrysler chiefs John Riccardo and Lee Iacocca were asking for. As long as interest rates remained high, the loan guarantee simply defined a limited borrowing capability for Chrysler, a capability that could not help very much.

Supervising Chrysler's loan guarantee and overall finances is the three-member U.S. Chrysler Loan Guarantee Board established by Congress in December 1979. One member of that board is Paul Volcker himself; the second is Treasury Secretary G. William Miller. (The third member is Comptroller General Elmer Staats.) Both Volcker and Miller are hostile to Chrysler's continued existence and to the auto industry overall, which they deride as a sunset industry.

Chrysler has drawn down $800 million of the $1.5 billion, and last week applied for an additional $400 million authorization. One surly Treasury official told the *New York Times* that "Chrysler will soon see a day of reckoning."

Volcker and Miller held meetings with Chrysler Chairman Iacocca over the last week and laid down $2 billion in survival condition sacrifices for Chrysler's getting the $400 million additional. Chrysler must get:

- $600 million from the United Autoworkers Union in a pay freeze for 1981. The UAW workers took a $345 million pay cut in 1980;
- $240 million saved via a 5 percent cut in prices from Chrysler's suppliers for the first quarter and a price freeze for the rest of the year;
- $572 million in loans that are not covered by its loan guarantee converted into preferred stock;
- $575 million in cuts in capital spending for capacity increases for its 1984 and 1985 models and some executive-level attrition.

These "sacrifices" are being heaped upon suppliers, who because of the drop in business are at best keeping their heads above water, and a UAW which has run out of funds to supplement for the growing numbers of its unemployed.

If Chrysler doesn't come up with all these sacrifices, it goes under. But even if it meets this test, it will, under current conditions, fail anyway, and then be dismembered.

"Chrysler will be finished by March," reported Gary Sterns, an economist at the Gary Schilling economic consulting firm Dec. 9. "Some of its parts will bring a lot of suitors. United Technologies or General Dynamics," Sterns explained, "would be very happy with Chrysler's defense section. That will be grabbed up right away."

The Department of Transportation source confirmed that "Chrysler attorneys, Treasury official attorneys, and sources from a hundred other places have already worked out the legal plans for the sale of the key Chrysler divisions on a moment's notice, without the slightest legal delay. Chrysler's defense-aerospace division is a good point. It is just barely a Chrysler subsidiary, and could be transferred to some other corporate entity without any legal difficulty from the government."

Other parts of the Chrysler system that are being slated for purchase:

- Chrysler's new process gear plant in Syracuse, New York, which produces most of its gears not for Chrysler cars, but for vehicles of companies around the world;
- Chrysler's $600 million transmission plant at Kokomo, Indiana, which includes some of the most modern automotive equipment in the country;
- Chrysler's L and K car plants, which produce the Omni, Aries, and Reliance compact cars.

According to the Department of Transportation source, "joint ventures will be formed, which will allow outside interests to invest money and get half ownership of L and K car plants. They will not be bought outright."

And what happens to the remaining Chrysler assets? "If someone wants a plant cheap, they can buy it," reported the source.

Reports Schilling's Stern, "nobody will buy the Chrysler assets right away. They'll wait until they're good and cheap."

Ford and GM

Putting Chrysler through the wringer just prepares the ground for wringing out the rest of the American auto industry.

Ford Motor Company is experiencing tremendous problems. According to one source, "For the 1979 model year, Ford Motor Company produced 2.5 million cars and 1.2 million trucks in the U.S.; and in the 1980 model year, it produced 2.3 million cars and 1.2 million trucks; but for 1981, Ford has set-up capacity, that is, capacity that it is providing workers for, for only 1.7 million cars and 0.7 million trucks. Thus instead of the 3.5 million units of 1979, it will produce only 2.4 million units in the U.S. in 1981."

Ford is attempting to try to get cash from wherever it can. Earlier in the year, it took accelerated dividends and loans from its German subsidiary (Ford's major production center in Europe), which is geared up to produce 900,000 units, but has been suffering very bad sales. To pay back the loans to its German subsidiary, Ford took out $725 million in loans two weeks ago in the U.S., on which it is paying $300,000 per day alone in interest. Ford has a $2.5 billion line of short-term and revolving credit, which it taps from time to time, but to cover its losses in North America, which will probably hit $2 billion this year, and to meet capital expenditures, Ford may have to go to the market for $2 to $4 billion soon. Ford cards have a $400 to $500 profit margin per car, and at current interest rates, each $1 billion in borrowing adds about $75 per car; a $4 billion borrowing, if interest rates keep where they are, will cost Ford $350 per car in additional interest expense, all but wiping out the profit margin.

General Motors, despite greater access to capital than either Ford or GM, is now experiencing acute problems. Its primary cash flow, which consists of cash inflow (profits, depreciation, and amortization set aside) minus cash outflows (capital spending, dividend payouts, long-term debt payments), will be negative $4 to $6 billion this year. When it is considered that its primary cash flow will probably be positive for GM's overseas operations, then the extent of GM's North American primary cash flow losses stand out.

Because of its huge cash resources, GM has been able to draw cash out of the nooks and cranies of its organization. Moving up by 20 days its dealers' date for payment on GM-delivered cars has added $1.5 billion to GM's cash flow. But the auto industry is still faced with $90 billion in capital expenditures between 1977 and 1985, of which approximately two-fifths are for Naderite-mandated restrictions.

Domestic Credit by Richard Freeman

The Salomon report

An understated estimate of credit needs—along with a mistaken view of the recession.

In its latest publication, "1981 Prospects for Financial Markets," Salomon Brothers investment bank predicts, "Typically, at the start of economic recoveries, nonfinancial business corporations gain a respite from heavy external financing needs. But if the economy behaves, even a brief respite is unlikely in 1981. *We expect that total external financing requirements will rise from this past year's estimated $106.3 billion to $125.5 billion in the coming year*—an 18.1 percent increase versus the precipitous fall" in external financing requirements during the 1975-76 recovery from the 1974 recession (emphasis in original).

The Salomon Brothers report, written under the supervision of economist Henry Kaufman, emphasizes that this external financing requirement will put a large strain on the financial markets next year.

What is remarkable about the report is that it accurately reflects the pent-up credit demand of nonfinancial corporations, even if, because of the interest-rate escalation, this corporate need for funds is once again denied access to the credit markets.

The Salomon scenario for the economy foresees increased plant and equipment spending producing an economic recovery of sorts in 1981: 1.5 percent real GNP growth. It predicts that the recovery "is most unlikely to deteriorate into a so-called 'double-dip' recession." On an economy-wide basis, Salomon places the requirement for *new* funds at $412 billion in 1981, compared with $311 billion this year.

As I have emphasized in this column, the credit needs of the U.S. economy are built in very deeply. Corporations have been increasingly loading themselves up with short-term debt and wiping out their assets as a result of the credit crunch. To restore their corporate balance sheets would require the most enormous credit infusion the U.S. economy has experienced. For example, the liquidity ratio for corporations, which measures liquid assets to short-term market debt, has been plummeting since 1945. In 1945, liquid assets outweighed short-term market debt 5:1. By 1960, the ratio was 1.5:1, and it stabilized at that level for a while until falling below the 1:1 level in 1969. Today, there are only 75 cents of liquid assets for every dollar in short-term market debt. Ironically, under the current interest-rate situation, the deterioration of assets requires further reliance on outside financing, which includes short-term debt in sizable quantity.

The other key parameter showing the balance sheets of corporations is the ratio of long-term (mostly bonded) market debt to short-term market debt. This level has fallen from a 3.2:1 ratio as late as 1976 to a 2.7:1 ratio in 1980, reflecting the overall inability of corporations to float long-term debt.

What would have to be done to restore the second ratio (i.e., a paydown of short-term debt) is a massive flotation of long-term bonds and a generation of internal sources of funds (liquid assets), which would require every penny of the $125.5 billion level of external financing that Salomon Brothers is projecting for 1981, without allowance for a healthy level of capital spending.

But ironically, Salomon Brothers does not believe that corporations will raise as much long-term debt next year as this year ($40.7 billion). This is Salomon Brothers only concession to reality on how the economy will perform: Salomon predicts that "long-term rates are likely to show on balance an irregular upward direction." In other words, the report expects that Volcker's policy will continue, and high rates will frighten corporate borrowers away from the bond markets.

In fact, Volcker's interest-rate binge will produce next year the "double-dip recession" Salomon Brothers so derides, which *EIR* first predicted in August. At that time we anticipated that the illiquidity in the economy would translate into borrowings in the latter part of the year, swell the money supply, and invite Volcker's attempt to contain demand by crunching the economy. If Volcker crunches the economy fully in the first quarter, *the same credit-demand spiral will take off again next year.*

The answer to this credit demand is not to chop it off as Volcker, Salomon Brothers and others are currently demanding—it can't be chopped off without chopping up the economy. The solution is, in brief, a two-tier credit system, directing low-cost, long-term funds into useful production.

The commodity impact

The evidence that the market drop was rigged, the certainty that it will hurt farmers.

Commodity futures prices took their sharpest dive in postwar history in the 10 trading days ending Friday Dec. 12. The $2.00 a bushel drop in soybean prices was the biggest in the Chicago Board of Trade's memory. The immediate trigger was the latest surge in interest rates.

Betting on a tight supply situation and rising prices in all but wheat, speculators in agricultural commodities had taken large long positions in the market (they bought contracts for future delivery at specified prices). When futures prices began tumbling at midweek, there were margin calls of up to $20 million, and many speculators bailed out at a loss, pushing prices even lower.

After the markets had calmed down a bit, Chicago Board of Trade President Robert Wilmouth announced that all clearing members had met their margin calls as of 8:00 a.m. Friday morning, and everything was back to normal. But was it?

Before Wilmouth and others put the clamps on, information had seeped out about the casualties and near casualties of the recent market turbulence. On Friday, the *Chicago Tribune* carried rumors of huge losses at major brokerage houses, among them Continental Grain's ContiCommodity Services, Bache, Paine Webber, and Pillsbury. McLean II, a commodity fund sponsored by ContiCommodity, lost its $6 million in capital and collapsed. The Farmers Export Co. of Kansas City, a "super-coop" that handles exports of grain and oil seed for 12 regional farmers' cooperatives, was rumored to have lost between $30 and $100 million. Its president, James A. Layton, resigned amid the flap, denying large losses.

Less spectacular, but no less serious, was the cost to American farmers. The new price collapse tightens that much more the squeeze between farmers' production costs and the prices they receive for their products. Soybean prices, to take the worst case, dropped from $8.55 a bushel in early December to $6.05 on Dec. 11 in a representative cash market and have regained only a few cents since then. The May 1981 soybean futures contract plunged from nearly $10 a bushel to $7.99 over the same period.

Through late November, there was distress selling of grain by farmers carrying 18 to 20 percent financing charges. Even though supplies of corn and soybeans were unusually tight due to last summer's drought, cash prices were falling while futures were rising. Now both are depressed. And some producers who had tried to offset their cash market losses by buying futures got doubly burned.

There are still a lot of questions to be answered about how the recent market collapse was triggered, given the outlook for tight supplies and shortages ahead. The surge in the prime rate over 20 percent was undoubtedly a factor, inasmuch as record interest rates have made holding stocks prohibitive.

The Dec. 15 issue of *Feedstuffs*, the trade magazine of agrobusiness, added that the potential for cutoff of trade with the East bloc if the Soviets go into Poland, caused a panic about declining U.S. grain exports and more downward pressure on prices.

There is also considerable evidence of market rigging—a move by big speculators to stampede the market downward. Doug Wildin, a contributor to *American Agricultural News*, the newspaper of the American Agriculture Movement, emphasized in an interview that the big December sell-off did not reflect selling by producers; distress selling of grain earlier this fall had come to an end and that grain was already in the pipeline. The week of Dec. 8, in fact, the AAM called for a moratorium on further farm sales until the markets stabilized.

Wildin thinks that some very big, "foreign-based" speculators, among them the multinational grain companies, "leaned on the market" and started a stampede, prior to going into the market and locking up supplies of grain at cheap prices. This is what is known as "milking" the producer. *Feedstuffs*'s commodities column, "Bloody Price Slide May Create Opportunities," noted that there were massive unmet "sell" orders when the market closed Dec. 11—for 20 to 30 million bushels of soybeans, 12 to 15 million bushels of corn, and lesser quantities of other commodities. But instead of prices collapsing further, as expected on Friday, the market bounced back as a result of "commercial and export support."

Protesting too much?

The Soviets deny EIR*'s hypothesis that they're coordinating with South Africa—it might be a good sign.*

The following remarkable article appeared in the Soviet government newspaper *Izvestiya* on Nov. 30 under the name B. Pilyatskin:

"Attention: Misinformation!

Lowest Level of Purity

Maputo, [South Africa]—'A lie should be monstrous for people to believe in it,' the unforgettable Goebbels said. Since then the technique of misinformation and fabrication of falsehoods has advanced a long way, but the principle has remained the same.

"For instance, the man in the street opens the South African newspaper *The Star* and, dumbfounded, reads: 'The Republic of South Africa and Russia—Strange But Likely Fellows in a Golden Bed.' Beneath the playful headline is a text where it emerges that the U.S.S.R. is on the point of entering into a secret alliance with the Republic of South Africa, in order to 'swallow up' competitors and 'jointly dictate gold prices to the world.'

A similar item was published in the Johannesburg *Rand Daily Mail.* Who copied whom? It transpires that there is no plagiarism involved. Both publications have simply reprinted an article from Britain's *The Financial Times.*

"People have promptly inquired as to where David Marsh, the author of this astounding news, learned of it. Nowhere. Carrying out a definite order, he made up the story of the gold pool out of thin air and, in order to show off, he mysteriously mentions 'circulating rumors' and 'expert observers.' 'There are also rumors,' the misinformer continues glibly, 'of an informal joint strategy between the two countries for sales of platinum on the world market.' So one line is heaped on top of another.

"Not a lot to be expected, so to speak, of South Africa's *The Star* and *The Rand Daily Mail,* but *The Financial Times* likes to emphasize its reliability and respectability. How can this be reconciled with the lowest-quality stories about gold and platinum?"

As regular readers of *Executive Intelligence Review* will recall, the "rumor" of Soviet-South African collaboration in gold marketing did not originate with the *Financial Times*'s David Marsh but with this publication. In the July 22 issue of *EIR,* we reported that Consolidated Gold Fields, the London-based holding company that controls South Africa's second largest mining group, Gold Fields of South Africa, was sending a team of experts to Moscow.

According to a Consolidated Gold Fields official, the visit was at the invitation of the Soviet government, and marked the first time ever that the Soviets had shown a willingness to share gold market intelligence with the British company.

Consolidated Gold is a part of the mining empire of Anglo-South African magnate Harry F. Oppenheimer, whose De Beers Consolidated Mines bought up a controlling interest in Cons Gold's shares earlier this year. De Beers controls the marketing of 85 percent of the world's diamonds and has collaborated with Soviet officials for years in the marketing of Russian diamond production.

We asked one usually well-informed European gold source what he thought of Consolidated Gold's trip to Moscow. We were told: "If Consolidated Gold Fields is going to Moscow, it is probably correct to conclude that they are discussing the coordination of gold sales. In fact, they might even be seen as a semi-official representative of the South African government."

We reported this assessment to our readers as a hypothesis. The story was only later picked up by the unfortunate David Marsh.

The vehemence of the Soviet denial of our hypothesis could indicate that we were on the right track. But it could also be a positive sign.

As we outlined then, Soviet cooperation with British networks on gold would tend to undermine possible Soviet collaboration with the Franco-German-centered European Monetary System.

French President Valery Giscard d'Estaing has been considering a plan which would use gold-backed bonds for medium- and long-term financing of expanded three-way trade among the Western industrial nations, the East bloc, and the developing countries, launching a global industrial boom.

World Trade by Mark Sonnenblick

Cost	Principals	Project/Nature of Deal	Financing	Comment
NEW DEALS				
$6.5 bn.	U.S.S.R./France	Rhône-Poulenc has signed 10-year pact with Soviet Union. The French chemical giant will supply turnkey chemical plants, agro chemicals, fertilizers, and animal feed. Soviets will supply R-P with naptha, ammonia, methanol, and even crude oil.		More than doubles integration under 1976 deal; biggest specific East-West deal.
$750 mn. (may be higher)	India from U.S.S.R.	Soviet Union will expand Soviet-built steel plant at Bhilai to 4 mn. tpy capacity and build a new steel plant in Andhra Pradesh. Soviets will also increase crude oil shipments from 1.5 to 2.5 mn. tpy and derivatives from 1.9 to 2.25 mn. tpy.		Signed during Brezhnev visit.
	India from U.S.S.R.	Defense Ministry sources report India has bought very sophisticated MIG-25 Foxbat reconnaissance and training planes from the Soviets.	Long and soft terms	
$900 mn. plus	Saudi Arabia from Europe	Saudis have ordered 11 A-300 Airbuses for Mideast routes. This order follows Kuwait's Middle East Airlines order for 5 A-310 Airbuses with options for 14 more. GE, Pratt and Whitney and Rolls-Royce are fighting for engine contracts for both deals.		Airbus has won Mideast market from Boeing.
	Japan from U.S.	Anaconda will provide Japanese copper smelters with ore which they will refine on a commission basis for Anaconda or buy for themselves. Contract calls for Anaconda, owned by Atlantic Richfield, to provide 390,000 tpy ore during 1981 and 1982, and 500,000 tpy in 5 following years.		Ore would have been refined in Anaconda's Montana smelter, closed for environmental reasons.
$335 mn.	Southeast Asia from Japan	Toyo Engineering signed contract for fertilizer plant in Indonesia, jointly owned by Philippines, Malaysia, Thailand, and Singapore.	Full financing from Ex-Im and Overseas Eco. Coop. Fund	Agreed by Fukuda govt. in 1977.
$1.2 bn.	Egypt from U.K.	British companies, represented by British Wastewater Limited, have won first phase of Cairo's massive sewer system project.	British govt. ECGD will finance at least $234 mn.	Firm commitment signed.
UPDATE				
$1.6 bn.	India from U.K. or France	Despite British Aerospace claims reported by *EIR* last week, India has not yet chosen the Jaguar.		Indians now evaluating French Mirage 2000 jet.

Banking by Kathy Burdman

Interstate banking on little cat's feet

Congress is being set up to defend McFadden but accept free banking zones.

Protective regulations against interstate banking by the large New York and other money-center banks are headed for a period of "quiet but intensive subversion," if Carter leftovers in the Federal Reserve and House Banking Committee have their way, House Banking sources told *EIR*.

The Nov. 19 Federal Reserve Board approval of the New York Clearing House "top twelve" banks' International Banking Facility free banking zone plan "will shift the entire framework for banking among the states, and show that the McFadden Act is in reality inoperative," aides to Rep. William Stanton (R-Ohio) said. The act prohibits banks, especially the big New York variety, from branching across state lines to eat up local banks' lending business.

The opening volley in the new Congress on behalf of banking dereg will be fired by Carter Domestic Policy adviser Stuart Eizenstat, who intends to release his long-delayed Report on the McFadden Act and Douglas Amendment in January. Eizenstat and his deputy Orin Kramer make the outrageous proposal that both McFadden and Douglas be abrogated to allow "contiguous" interstate banking.

Under the contiguous state plan, first proposed by Security Pacific Bank of Los Angeles, major money-center banks would be able to establish a "limited free-fire zone" within a region of states contiguous to their home state, within which they could take over local banks and their business.

Under the new Eizenstat/Kramer plan, Security Pacific, say, would be allowed the extensive power to not only buy up smaller banks in Oregon, Arizona, Nevada, Utah, and other states, but to establish major full-scale branching operations, too.

While the contiguous state plan would require legislation, Carter's men will also propose that the Fed immediately allow, by regulatory fiat, the establishment of automated teller machines in "adjacent economic areas," allowing New York giants to invade New Jersey and Connecticut.

The sweeping Carter plan per se "doesn't have a snowball's chance," Treasury's Mingot admits. It's not meant to. It is meant to convince the public that dereg is inevitable and to make the changes coming up under the Fed's IBF program look mild by comparison.

Mild it isn't. The leading New York banks behind the IBF plan intend to use electronic funds transfer to establish a national banking *cartel,* which only the privileged Top 100 money-center banks may join. In return for supporting the New York IBF plan, First Boston, First Chicago, Bank of America and other money-center banks have demanded membership in the New York banks' Clearing House International Payments System (CHIPS) computer. A "U.S. CHIPS" member would be free to transfer funds, make loans, and otherwise bank around the country, regardless of federal law.

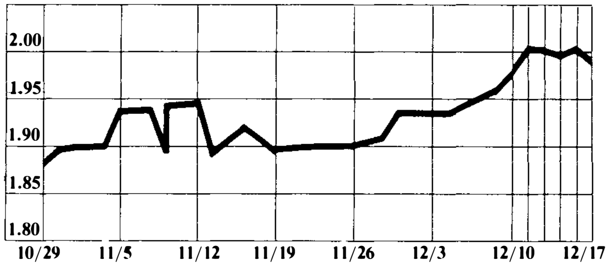
The Fed's Oct. 31 staff memo approving the IBF plan points out that the big banks will take *domestic* business away from regional banks through the technicality of using the books of their foreign subsidiaries. "U.S. corporations might be able to indirectly use IBF deposits placed by their foreign subsidiaries and thereby reduce their own demand for deposits in the U.S.," the memo admits.

The Eizenstat report will set the public tone. Present federal banking regulations "are artificial in economic terms and deprive the public of the benefits of competition, impede efficient allocation of resources, and application of new technologies," it states.

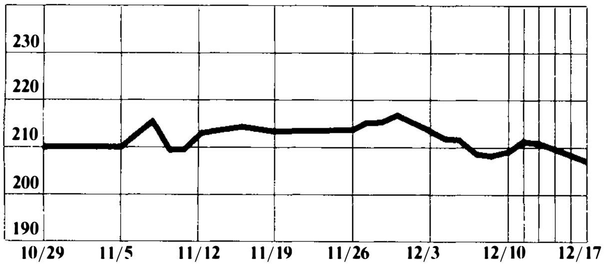
Then a group of proderegulation staff members left over from Wisconsin Rep. Henry Reuss's tenure at the House Banking Committee intend to create a ruckus on the Hill. Incoming Senate Banking Committee Chairman Jake Garn (R-Utah) strongly opposes interstate banking and plans tough oversight hearings to stop the Fed and Treasury from "legislating [it] by default," he told *EIR* last month. But aides to ranking House Banking Committee Republican Stanton say that they and House Banking Chairman-designate Rep. Fernand St. Germain (D-R.I.) "can take over House oversight hearings and turn them into a forum for showing that interstate banking is not only good economic sense, but is already reality. Even Senator Garn will be forced to conclude that McFadden is obsolete," they say.

Currency Rates

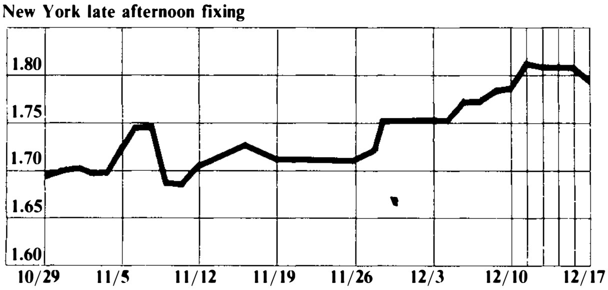
The dollar in deutschemarks
New York late afternoon fixing



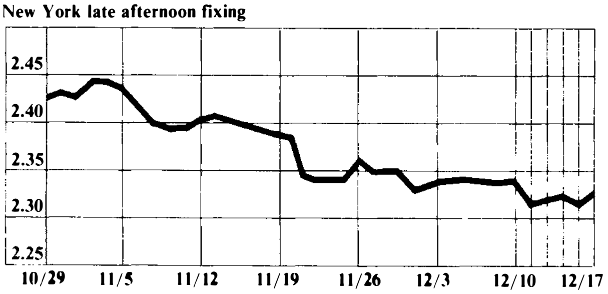
The dollar in yen
New York late afternoon fixing



The dollar in Swiss francs
New York late afternoon fixing



The British pound in dollars
New York late afternoon fixing



The international operatives who want $100-a-barrel oil

by Judith Wyer

The Organization of Petroleum Exporting Countries (OPEC) agreed this week to raise the price ceiling of crude oil from $37 to $41 a barrel. The decision to raise the price ceiling beyond the $40-a-barrel level resulted from a unilateral demand from a bloc of so-called pricing hawks over the objections of Saudi Arabia.

The 13 member-state delegations which convened in Bali, Indonesia, re-enacted the same drama that has dominated every OPEC price-setting session since late 1978. In each case the pricing militants led by Algeria, Nigeria, Libya, and Iran have challenged the moderate policy of Saudi Arabia, and imposed their own anarchic price increases.

For the sake of OPEC unity this bloc has repeatedly forced the OPEC price higher and higher. This time as before, once Saudi Arabia gave in to the pressure and enacted a hike, the hawks then took the liberty of jacking prices up even further. Since the last September OPEC meeting, Saudi Arabia has been under pressure to raise its price, the lowest in OPEC, from $30 to $32 a barrel. Saudi Arabia's concession immediately triggered other OPEC producers who charge less than the militants to raise their prices by 10 percent, making the average OPEC price about $36 a barrel (see Figure 1).

OPEC sources report that the three African producers will likely raise their prices beyond the $42-a-barrel ceiling by additional charges, known as premiums. They foresee African crude going for up to $45 a barrel in the first quarter of 1981.

This latest OPEC price boost indicates that the arguments that supply and demand determine oil prices is a fraud. At present the consuming nations and the multinational oil companies are sitting on the biggest stockpile of crude oil in history. Estimated to be as high as 7 billion barrels of oil, stocks are sufficient to feed the economies of the advanced nations of the noncommunist world for up to 100 days. Nevertheless, the price of oil continues to climb. Because of the fears of increased instability in the Persian Gulf, oil companies and consuming nations alike have increased their stockpiles. As one industry source put it, "they are hedging on a big crisis."

As a result, despite the enormous volume of crude sitting in spare tankers and storage tanks, the oil markets have remained relatively tight, particularly for grades of high-demand, low-sulphur crude which is only produced in Africa in large volume.

The multinational oil companies operating in Britain's North Sea must have been grinning ear to ear

Figure 1
OPEC crude oil official sales price*
(U.S. dollars per barrel)

	1978	1979	1980 1st qtr.	1980 2nd qtr.	1980 3rd qtr.	1980 4th qtr.	1981 1st qtr.
Total Opec	13.0	18.7	28.7	29.5	31.4	32.5	36.0
Saudi Arabia	12.7	17.2	26.0	27.0	29.0	30.0	32.0
Nigeria	14.0	21.0	32.5	35.0	37.0	37.0	41**
Algeria	14.1	19.6	35.6	37.5	40.0	40.0	41**
Libya	13.9	21.0	34.6	35.0	37.0	37.0	41**

*Prices based on quarterly averages.
**Though Nigeria, Libya, and Algeria demanded that the OPEC ceiling be raised from $37 to $41, these three producing nations have not as yet raised their price. It is expected that after January 1981 they will raise their prices to the $41 limit and may apply additional surcharges over the $41 ceiling.

upon hearing the news of the new price ceiling for OPEC. Since British North Sea oil came on stream in 1975, its crude, which is the identical grade to that of the African producers, has been pegged to the African crude price. Throughout 1978 and 1979 when the price of crude skyrocketed by upwards of 150 percent, it was the British North Sea oil interests, the African producers led by Libya, and the speculative Rotterdam spot market which repeatedly triggered one price hike after another.

British factor

As most rational individuals know, there is plenty of oil still in the ground in the Middle East and elsewhere. The reason for the continuing pricing spiral has nothing to do with the correlation of supply and demand or the myth of the free market. It is a calculated swindle to make numerous energy boondoggles profitable which require a minimal market price of $50 a barrel over the next year with price hikes up to $100 a barrel by as early as 1983.

The development of nuclear fission and fusion for application on a mass scale to energy generation is not included in the "energy mix" of the London-centered multinational companies behind the current pricing gambit. The long-term application of those technologies would bring the entire social cost of energy down.

A North African oil price of $40-plus a barrel immediately presents Britain with the option of a comparable price increase. North Sea oil at that pricing level, industry sources confirm, makes new exploration in extremely deep water within the North Sea profitable.

Not coincidentally, days before the African producers enacted the price hike the Chairman of the Board of Exxon Corporation Howard Kaufmann announced that one of Exxon's top investment priorities for future exploration would be the North Sea. Since the 1974 four-fold price increase by OPEC, the multinational companies have begun to diversify into exploration for oil which is geologically very expensive to produce. But the upward climb of oil prices has also underwritten massive investments in other alternative energy projects most notably synthetic fuels which, experts concur, at current rates of inflation will cost the equivalent of $100 a barrel by 1985.

Perhaps Kaufmann's sagacious investment planning for Exxon was influenced by information available to the so-called Seven Sisters oil cartel from London. The African oil producers in question are all heavily influenced by the militant Muslim Brotherhood, which favors reducing oil production and raising prices. Britain created the Muslim Brotherhood and controls its operations, including Khomeini.

Speaking in Warsaw last week, the Chairman of Occidental Oil Armand Hammer stated that by as early as 1983 the price of crude oil will have climbed to $100 a barrel. It may well be Armand Hammer's personal relations with Libyan strongman Muammar Qaddafi that has made him confident of such a future oil price boost. Occidental's primary area of operations in the Arab world is Libya. The *Executive Intelligence Review* has documented Hammer's involvement in the scandal involving President Jimmy Carter's brother Billy and Libya.

Gordon Reese, the public relations director of Occidental Oil stated that increased conservation within the consuming nations would only prompt the oil producers to cut back production and thus adjust to reduced consumption and further jack up prices. He stated that Occidental's policy was that only "expanded dependency on synthetic fuels, tar sands, and coal was a suitable solution to the energy crisis." Reese further declared that he was not opposed to the formation of a coal cartel, known as COPEC, which would be dominated by London and the commonwealth nations.

Since 1970 the price of a ton of U.S. Eastern bituminous coal has risen from $5 to $30 a ton. According to an industry source this is the result of the increased ownership of coal reserves by the multinational oil companies.

A similar process is presently occurring with another alternative energy source to oil, natural gas. Under the leadership of Algeria, several OPEC nations are working to cartelize natural gas and bring its price to a world-market parity with the increasing price of oil.

Just as Reese stated, several OPEC nations have responded to the precipitous decline in world oil consumption by cutting production and raising prices. Over

Figure 2
OPEC production
(million barrels per day)

	1979 Average	1979 September	1980* September
Saudi Arabia	9.6	9.8	9.8
Iran	3.0	3.5	1.1
Kuwait	2.5	2.4	1.2
Iraq	3.4	3.5	2.9
Abu Dhabi (UAE)	1.5	1.4	1.3
Venezuela	2.4	2.4	2.1
Nigeria	2.4	2.2	1.6
Libya	2.0	2.0	1.7
Indonesia	1.6	1.6	1.6
Algeria	1.1	1.0	0.9
Gabon	0.2	0.2	0.2
Ecuador	0.2	0.2	0.2
OPEC Total Output	30.7	31.0	25.4

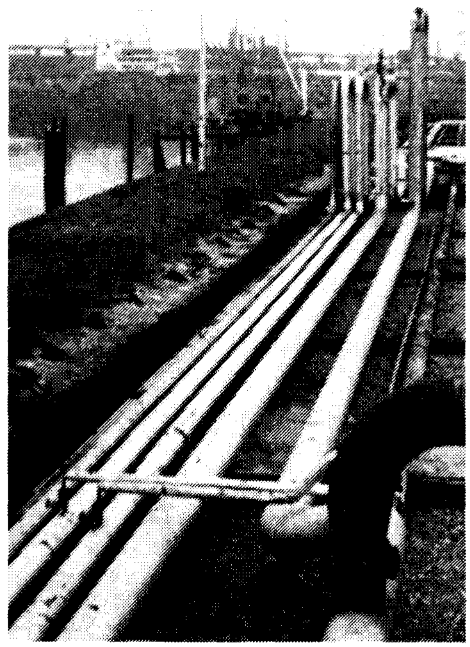
*Last available figures for OPEC production.

Figure 3

Non-OPEC oil production

(millions of barrels per day)

	1978	1979	1979 1st qtr.	1980 1st qtr.	1979 2nd qtr.	1980 2nd qtr.
Developed countries ..	12.2	12.8	12.5	13.0	12.8	13.0
United States	8.7	8.5	8.5	8.7	8.5	8.7
Canada	1.3	1.5	1.5	1.5	1.5	1.4
United Kingdom	1.1	1.6	1.4	1.7	1.6	1.6
Norway	0.36	0.4	0.36	0.6	0.4	0.6
Other	0.4	0.4	0.7	0.7	0.8	0.7
Non-OPEC LDCs	4.5	5.0	4.8	5.3	4.8	5.4
Mexico	1.2	1.5	1.4	1.8	1.4	1.9
Egypt	0.5	0.5	0.5	0.6	0.5	0.6
Other	2.6	3.0	2.7	3.0	3.0	2.3
Communist countries ..	14.0	14.0	14.0	14.1	14.0	14.1
U.S.S.R.	11.2	11.4	11.4	11.6	11.4	11.7
China	2.1	2.1	2.1	2.1	2.1	2.1
Other	0.5	0.4	0.4	0.4	0.4	0.4



the last year, several OPEC nations have cut exports by upwards of 2.5 million barrels a day. Nigeria alone has cut 800,000 barrels a day and is reported to be planning yet another cut of between 100,000 and 200,000 barrels a day. Most of Nigeria's oil comes to the U.S. Kuwait has cut its oil exports in half to 1.2 million barrels a day (see Figure 2).

Since the four-fold oil pricing boost there has been a direct relationship between the increase of non-OPEC oil output to the decline of OPEC oil. But much of that non-OPEC oil, most importantly the British North Sea crude, could not be profitable without the massive increases in oil prices (see Figure 3).

The cuts in OPEC output, which have been calculated to offset the supply/demand balance and justify new price hikes, have occurred as two major OPEC producers, Iran and Iraq, have lost all of their exports since the Iran-Iraq war began in September. This took an additional 4 million barrels a day off the market. The same month Nigeria cut 500,000 barrels a day.

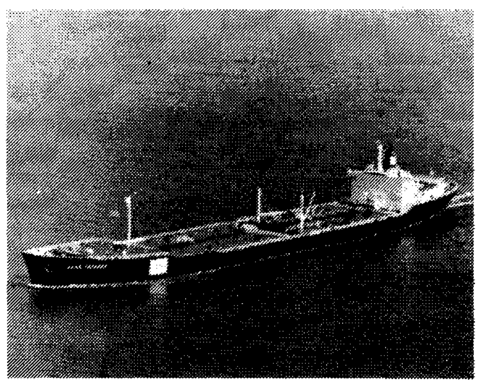
In so doing, these OPEC producers are underwriting the policies which are associated with the City of London and the elitist Club of Rome to drastically reduce the world's population through genocidal austerity. The North African producers and their allies in the Persian Gulf and Latin America are in an alliance with the same "imperialist forces" that they attack for repressing the poor nations of the South.

Figure 4

Consumption of crude oil by the big seven industrial states

(millions of barrels per day)

	1978 average	1979 average	1979 1st qtr.	1980 1st qtr.	1979 2nd qtr.	1980 2nd qtr.
United States	18.8	18.4	20.3	18.1	17.6	17.0
Japan	5.1	5.2	5.8	5.5	4.8	4.8
West Germany	2.6	2.7	2.7	2.5	2.6	2.4
France	2.1	2.1	2.6	2.3	2.0	2.0
United Kingdom	1.7	1.7	2.0	1.7	1.6	1.4
Italy	1.6	1.6	1.8	1.8	1.4	1.5
Canada	1.7	1.8	1.8	1.8	1.7	1.6



The impact of OPEC's latest action is expected to produce a deadly margin of indebtedness for the developing nations. Several African states, which are presently undergoing famine that is claiming millions of lives, are reported to be preparing to implement greater "conservation" for lack of revenue to pay skyrocketing oil prices.

Within the industrialized nations, the picture is no more promising. Japan will pay $6 billion more than its already astronomical oil-import bill of $60 billion. West Germany's oil-import bill will climb from $30 billion annually to $34.5 billion. Italy will pay an additional $3.4 billion adding up to $26.4 billion. The additional fuel costs only compound the economic crisis hitting the advanced sector by the record interest rates of Federal Reserve Chairman Paul Volcker.

The consumption of oil within the seven leading OECD nations is dramatically declining, particularly within the U.S. (see Figure 4). White House Press Secretary Jody Powell responded to the moves of the new OPEC price hike this week by announcing that newly released statistics show that the imports of oil by industrial nations have dropped a full 25 percent over the last 12 months.

But Britain still is not satisfied with the "overconsumption" of petroleum by the U.S. This week Britain submitted a proposal to the European Council of Ministers calling on the European Community to pressure the incoming Reagan administration to immediately decontrol the price of all American-produced petroleum. Immediate decontrol would allow all of American-produced oil to float to the world price of oil that is set by OPEC. London calculated that this would restrict further American consumption. This conservation, in turn, would contribute to further price hikes just as Mr. Reese from Occidental Oil observed.

A look at OPEC's price hawks

Algeria: Prior to this week's OPEC price rise, Algeria was charging the highest price for its crude at $40 a barrel. It is expected that Algeria will impose a price in excess of the $41 ceiling.

In the past, Algeria's policy of high oil prices was prompted by its aggressive development plans. Algeria has a population of over 15 million, but produces only about 1 million barrels of oil a day, and has accrued a major national debt.

Since the death of President Houari Boumedienne two years ago, Algeria has taken a course diametrically opposed to his industrialization effort. Current Algerian President Benjadid Chadli is acting to balance two contending factions within the Algerian ruling party, the National Front for Liberation, which still identifies with industrial growth, and the group identified with Ahmed Ben Bella, a leader in Algeria's revolution who was jailed by Boumedienne.

Last week Ben Bella called upon the entire Arab world to break all its ties with the West and adopt policies of agricultural self-sufficiency. Ben Bella attacked oil as the "gravest" evil in the Arab world, because it creates a "barrier" to natural development. Ben Bella is backed by the London-based Bertrand Russell Peace Foundation, which supports Khomeini and Libyan dictator Muammar Qaddafi.

Libya: Muammar Qaddafi was installed as the strongman of Libya in a military coup in 1969 by the same Italian-based nobility that was strongly allied to the Libyan royal house of Idris and the Egyptian royal family of Farouk.

Qaddafi has historically been the leading oil-price hawk in OPEC. It was at his instigation that the first round of price hikes occurred in 1972, hikes that led to OPEC's four-fold increase in the price of oil in 1974.

Qaddafi, a strong supporter of Ayatollah Khomeini, is a member of a mystical Muslim sect, the Senussi Brotherhood, which is allied to the clandestine Muslim Brotherhood movement. The Brotherhood proselytizes for confrontation with the West.

Qaddafi is controlled by a network of Italian mafiosi including the Sicilian Michele Papa whose own political affiliations go back to Benito Mussolini. Papa, who admitted to the Italian newspaper *La Repubblica* that he had initiated the contacts between Billy Carter and Qaddafi, also maintained a close relationship with the late Lelio Basso, president of the Bertrand Russell Peace Foundation.

Nigeria: Nigeria supports one of the largest populations of any OPEC country, and tremendous strains continue on the country's modernization. Nigerian President Shehu Shagari has maintained his commitment to a rapid development policy, fearing that an economic slowdown will foment social unrest.

However, Shagari is under very heavy pressure from Libya, which is fomenting tribalist and separatist unrest in northern Nigeria. This can have the effect of shifting Nigerian policy toward Qaddafi. Shagari is influenced by a group of policy-makers close to Britain and the Muslim Brotherhood sect.

Business Briefs

International Credit

Oil price rise, dollar rates endanger Third World

India, Zambia, and several copper producing countries in the developing sector are expected to face serious economic problems in 1981 due to oil price rises and rising dollar interest rates.

A World Bank official noted in an interview this week that announcement by oil-producing countries in OPEC that oil prices had been hiked from $2 to $5 per barrel "aggravated an already difficult situation." Goldman Sachs investment bank meanwhile is circulating a report by Brookings Institution fellow Lawrence Krause which asserts that if oil supply constraints develop next year, Third World borrowing requirements to finance current account deficits will rise to $110 billion. Previous estimates had been that Third World payments deficits would not top $80 billion.

Indian officials announced Dec. 17 that essential imports of aluminum, cement and steel will be reduced next year to offset payments needs. The Zambian central bank has been diverting foreign exchange earnings into financing of imports of oil and maize, it reports.

Brazil is expected to need $15 to $16 billion in 1981 in commercial bank loans to finance its balance-of-payments deficit. One British banker in Sao Paulo told press interviewers this week that Brazil will have to reschedule its public sector debt next year, since new funds "will enter . . . only sporadically . . . and this will go to farm and alternative fuel projects."

Interest Rates

German central bank officials gloomy

"I don't think U.S. industry can hold out for more than six months," Otmar Emminger, Germany's former Central Bank chief, told reporters Dec. 17. Emminger noted that there was widespread disatisfaction internationally with U.S. interest rate levels.

Saying that dollar rates above 20 percent were "too high," Emminger claimed that Germany would find rates around 16 percent acceptable. "Escalations of the interest rate hurt everyone," he added.

German officials have been emphatic in recent months that high dollar rates have forced a dangerous credit squeeze on the German economy. Faced with the prospect that foreign exchange speculators could dump the German mark in large volume for high-interest dollar instruments, the Germans have kept their basic rates between 9.5 and 10 percent.

Current central bank chief Karl-Otto Poehl told *Der Spiegel* magazine this week in an interview, "I might remind you that the Federal Republic has the lowest inflation rates of all the nations" in the European Monetary System, the eight-nation monetary stability arrangement formed in 1979. Poehl called it "unusual" that "currencies of countries with much higher rates of inflation . . . are valued higher than the d-mark." Earlier this year, German officials characterized foreign exchange markets as a "theater of the absurd" for chasing after high-interest currencies tied to weakened economies.

Banking

Citibank heads for the loan shark business

Following the New York State legislature's vote to totally deregulate bank interest and mortgage rates earlier this month, Citibank is raising rates with a speed that might raise some eyebrows.

Citibank credit-card division general counsel Dee Calligan confirmed rumors this week that the bank has raised the annual rate of interest it will charge on all its consumer credit cards from 12 percent average to 19.8 percent, and add on top of that a new $15 flat annual fee for use of the card. Notification of the changes has been mailed to 5.8 million Americans who hold Citibank credit cards such as Visa and Mastercharge, because the law change for Citibank's New York headquarters affects all its consumer clients around the country. Only about 1.2 million of the Citibank card holders are in New York State.

Even the Bank of America in California, which has had deregulation of consumer rates for some time, only charges 18 percent and a $12 fee.

Citibank and other large New York banks also announced this week that they intend to raise lending costs to less-than-prime medium- and small-business borrowers to over the 25 percent "loan shark limit" which is still in effect under New York State law. While consumer rates must still be kept below the 25 percent mark, which is considered to be a felonious rate under New York laws, Citibank and others maintain that since lending to business is not consumer lending, the loan shark law does not apply, and the sky's the limit.

Foreign Exchange

Watch the dollar, says forex press

Participants in the foreign exchange markets have finally realized, as *EIR* has been reporting, that the U.S. dollar is a "suspect currency" because it's current apparent strength is based totally on high interest rates.

After rising to a two-year high of DM 2.02 last week, on news of a 20 percent prime rate, the dollar promptly turned and fell below the psychological DM 2 barrier back to levels of DM 1.97 and below—on news that the prime this week had risen to 21 percent! The apparent contradiction is explained by the fact that since London Eurodollar rates have been hovering around the 22-24 percent level, foreign exchange traders consider any U.S. interest rate of less than that as "already discounted by the market," one trader told Reuters.

The London *Financial Times* this week in an editorial, "The Second Shake-Out," predicts a 1981 spring dollar crisis modeled on that of this spring. As soon as the Fed's current rate squeeze provokes an economic decline, interest rates will fall, and even a bit of a fall will cause a dollar fall.

"The dollar's new clothes are like the emperor's," notes the latest issue of *Business Week's Economic Diary*. "The improvement in the dollar has occurred only because U.S. interest rates have soared far above those abroad. But it does not represent any fundamental change in perceptions of the U.S. economy. Evidence of fundamental improvement will only come when the dollar stays strong despite a fall in U.S. rates."

Regulatory Policy

Banking committees take shape

When the 97th Congress convenes in January, both the Senate and House Banking Committees will have major membership changes.

Senator Edwin "Jake" Garn of Utah, a strong opponent of banking deregulation, will chair the Senate committee, as dereg proponent William Proxmire leaves altogether to assume ranking majority leadership of the Senate Appropriations Committee. Other new members will give Garn plenty of room to maneuver against deregulation. They are Senators Christopher Dodd (D-Conn.), Alan Dixon (D-Ill.), Harrison Schmitt (R-N.M.) and Alfonse d'Amato (R-N.Y.), who are expected to follow Garn's lead.

Liberal Senators Nancy Kassebaum (R-Kan.) and Adlai Stevenson are leaving Senate Banking, the latter to retire.

Unfortunately, Senator Garn loses the help of the able Senators Robert Morgan (D-N.C.) and Donald Stewart (D-Ala.), who lost their seats in the rout of Jimmy Carter.

The House line-up will more closely reflect the heritage of Liberal Rep. Henry Reuss (D-Wisc.) who is leaving Banking for the Joint Economic Committee. Rep. Fernand St. Germain (D-R.I.), who has long collaborated with Reuss as chairman of the House Banking Subcommittee on Financial Institutions, will likely be voted into the House Banking chairmanship when the Democratic House caucus meets in January 1981. Ranking House Banking Republican Rep. William Stanton of Ohio is also a proponent of banking deregulation, and his office is in fact hard at work on legislative plans to allow fully floating-rate indexed mortgages on the federal and state levels.

Representative Thomas Evans Jr., (R-Del.), who is leading the Reagan transition effort in the House, will provide some support for Senator Garn's efforts. Evans is ranking minority on the key Consumer Affairs subcommittee, and intends to "critically review deregulation together with Senator Garn" to "press for a quick reduction in the Federal Reserve's high interest rates," aides say.

Banking

Volcker policies force up Mexico's interest rates

Mexico's central bank announced Dec. 15 an increase in Mexico's bank interest rates to 27.5 percent on two-year deposits and 25.5 percent on short-term deposits.

This drastic measure is a reflection of the effect that U.S. Federal Reserve Chairman Paul Volcker's high interest-rate policies is having on the Mexican economy. Mexico is being forced to follow Volcker's suit to prevent massive capital flights to the U.S. where bank deposits earn higher interest rates.

The new announcement by the Mexican authorities has already drawn attacks from small and medium industrialists who will not be able to afford the high cost of credit.

Briefly

● **THE IMF** 7th quota increase received approval from the lame-duck U.S. Congress on Dec. 15. The controversial $5 billion appropriation had been in question until Sen. Daniel Inouye attached a rider to the continuing appropriations bill which allowed the quota increase to go through.

● **INSURANCE DEREG** is dead, according to aides to Sen. Strom Thurmond, who will take over the chairmanship of the Judiciary Committee in the new Congress. Thurmond not only wants to restore confidence in the McCarren-Ferguson Act, which gives responsibility for insurance regulation to state governments, but reportedly intends to abolish the antitrust subcommittee which had been working on changing the act.

● **U.S. BANK** foreign liabilities on the Eurocurrency market fell $3.5 billion in the third quarter of 1980. As a result, the London Eurocurrency market grew a total of $13 billion during those months, in contrast to an $18 billion growth in the second quarter.

● **REP. HENRY REUSS** (D-Wisc.) has written a letter to Federal Reserve Chairman Volcker advising the Fed to look into imposing "selective credit controls" on U.S. bank lending, aides told *EIR*. The outgoing House Banking Committee chairman's letter calls for Volcker to determine the "true nature" of the current strong credit demand, and try to penalize "speculative borrowing." Reuss would like to see credit cut in particular to the faltering commodity markets, aides said.

● **MONTFORT** of Colorado, the giant western livestock company, has announced the closing of its Adams County beef packing plant. Monfort said the high cost of money had precluded investment in modernization to keep it competitive.

Iran's power vacuum: who will replace the ayatollahs?

by Robert Dreyfuss

The public burning of photographs of Ayatollah Khomeini and Ayatollah Montazeri, another top clergyman, by crowds of demonstrators in Iranian cities is a signal that the medieval Islamic Republic of Iran may be in its last days.

For the first time since the establishment of Khomeini's regime in January-February 1979, a pattern of overtly anti-mullah political activity has broken out across the entire nation. Violent demonstrations have taken place in Teheran and Qom, Iran's holy city, against the clergy's rule, sometimes erupting into clashes with the Revolutionary Guards. In Tabriz, Iran's second city, partisans of dissident Ayatollah Shareatmadari have begun distributing literature that attacks Khomeini and blames the clergy for the defeat of Iran at the hands of neighboring Iraq. Street marches and demonstrations have also occurred in such cities as Isfahan, Mashhad, and elsewhere. In Kurdistan and Khuzestan provinces, Kurdish and Arab partisan organizations, logistically supplied from Iraq and with stockpiles of weapons of their own, have recently begun campaigns of systematic guerrilla warfare against Khomeini's authority.

On a superficial level, what is happening in Iran would seem to be defined simply in terms of a general diminution in the power of the ruling Islamic Republican Party (IRP), the political instrument of the Iranian branch of the Muslim Brotherhood, the Fedayeen-e Islam, and the rise of the authority of the secular Islamic revolutionaries around Iranian President Abolhassan Bani-Sadr and his allies.

In fact, however, the process is far more complex than that.

In reality, an almost classic political power vacuum exists in Iran. The victory of Iraq's armed forces in crippling Iran's export-import outlets and shutting off its oil production while seizing large parts of Khuzestan has created a profound crisis in the country. Not only has the Iraqi success set off a crisis in Teheran and other cities, where food and fuel are rationed and shortages of essential commodities widespread, but the Iraq action has dealt

Photo: Sygma

a total defeat to the Dark Ages clerical regime. In Iran, it has dawned on the various political and military factions that Khomeini himself is to blame for the crisis facing Iran.

Thus, throughout the population—among army commanders, merchants and *bazaaris*, the moderate clergy, businessmen, and the middle class—there is profound dissatisfaction with Khomeini and the IRP.

President Bani-Sadr, elected in January by an overwhelming margin but then gradually undercut and isolated by the IRP, is currently attempting to stage a comeback by rallying to himself the existing anticlergy sentiment in the country. Although at present Bani-Sadr is the only visible institutional pole of opposition to the clergy, most opposition forces bitterly mistrust Bani-Sadr and do not view as likely the prospect that Bani-Sadr can eventually emerge on top of whatever coalition manages to wrest power from the mullahs.

U.S.-Soviet policy

Before examining in detail the current internal balance inside Iran, it is first necessary to consider the international issues involved in the ongoing Iran crisis.

The election of Ronald Reagan has potentially transformed the regional context in which Khomeini's regime exists. The fall of the shah and the rise of the Khomeini dictatorship was engineered, according to a British design, by Cyrus Vance and Zbigniew Brzezinski of the Carter administration, in pursuit of the so-called Arc of Crisis strategy toward the region. They believed that an alliance between the Anglo-American camp and the apparatus of the Muslim Brotherhood secret society would not only create an Islamic fundamentalist "bulwark against communism" in the area, but would also provide a framework for extending the NATO military bloc into the Middle East and Indian Ocean. Brzezinski viewed the crisis surrounding the Khomeini regime as a pretext and an opportunity to engage in a long-term militarization policy toward the entire region, in which the Camp David accords between Israel and Egypt were to be the first step toward a network of bases and military facilities east of Suez.

In addition, for the Carter-Brzezinski faction, and for the New York and London financial interests behind them, Khomeini and Bani-Sadr represented an opportunity to accelerate the neo-Malthusian economic thrust that included energy conservation, antinuclear policies, and de-industrialization. These policies were to be implemented through tight credit regimes and deliberate forcing up of energy costs.

Reagan, in the view of most analysts, is determined to pursue an "Arc of Stability" policy in the Middle East, reversing the previous confrontationist Arc of Crisis strategy. To a large extent, Reagan will orient his Middle East strategy around Saudi Arabia and the stability of the Persian Gulf. From this standpoint, the Reagan administration cannot tolerate the Khomeini regime.

Already, many Iranian exiles are looking to the incoming administration to give a green light for a military coup against the Islamic Republic.

But to oust Khomeini and establish some sort of stable military-backed coalition government in Iran would require, first of all, the acquiescence of the Soviet Union. President Leonid Brezhnev and the Soviet leadership do not like Khomeini and the IRP regime, but, for strategic reasons, Moscow will not tolerate the reestablishment of an Iranian regime which would participate in the regional military buildup policy of Brzezinski, Harold Brown, and the Pentagon's Deputy Secretary for Planning Robert W. Komer.

Thus, any U.S.-sponsored move to topple the Khomeini regime could only occur with the prior agreement of the U.S.S.R.

Last week, in India, Soviet President Brezhnev suggested in an offer to the United States, Western Europe, China, and Japan that an international accord be reached to ensure the neutrality and security of the Persian Gulf and to ensure the uninterrupted flow of oil to the industrialized countries. Left unstated but, according to Iranian sources, still contained in the proposal was a quiet Soviet offer to Reagan concerning Iran. If the United States will abandon "the Carter doctrine" and agree to the creation of a zone of peace in the Persian Gulf area, Brezhnev was saying, then Moscow will silently assent to the toppling of Khomeini.

To succeed, of course, such an agreement could only be reached at the highest levels of the United States and Soviet governments.

According to former Iranian military sources, inside Iran there currently exists any number of generals and colonels who, under appropriate circumstances, would be prepared to launch coordinated armed insurrection against Khomeini. Many of these military men inside the country maintain telephone and other communications with the headquarters of several exile opposition military and political figures, including Gen. Ali Oveissi, Dr. Shahpour Bakhtiar, Gen. Bahram Aryana, and so forth. But their ability and willingness to move decisively now is hampered, among other things, by the pervasive belief that any coup d'état against Khomeini would run into total opposition from the United States.

Iranian exiles, long exasperated by the Carter administration's military and political support for Khomeini's regime, are well aware that the United States still has enough power to prevent a successful counter-

Bani-Sadr a captive of the hostage issue

In his interview with CBS-TV's Mike Wallace on 60 Minutes, President Bani-Sadr of Iran took pains to distance himself from the issue of the American hostages. Asked by Wallace whether he knew where the 52 Americans were being held and by whom, Bani-Sadr shrugged and admitted that he did not. "But that does not mean I am completely ignorant," he said, "since I have made inquiries."

Bani-Sadr also admitted that as long as the 52 Americans are being held, then Iran itself is hostage to the hostage crisis.

In the view of Bani-Sadr and his allies in Iran, the release of the American hostages is essential to his basic goal of restoring U.S.-Iranian cooperation in economic and military terms. Not the least issue for Bani-Sadr is the freeing of some $8 billion that was frozen by the U.S. Treasury when the hostages were first seized. In addition, Bani-Sadr and his close aide, Central Bank Governor Reza Nowbari, have been working out a deal with the Carter administration to exchange U.S. weapons for releasing the hostages by sending some $550 million in ordered arms supplies that were blocked after the seizure of the hostages.

But, as he is willing to acknowledge, Bani-Sadr does not control the hostages. That power lies in the hands of several Iranian factions, especially those associated with the radical wing of the Islamic Republican Party (IRP) and the Fedayeen-e Islam, the British-sponsored Islamic Brotherhood. This week, both Ayatollah Beheshti and Prime Minister Rajai gave indication of their intent to release the hostages provided that the U.S. gives unspecified "financial guarantees" to Iran.

Beheshti and Rajai are primarily motivated by their desire to trade their control over the hostages for acceptance by the incoming Reagan administration. The IRP believes that it can use the hostages as a bargaining chip, and it has hinted it will release them if and when the IRP is assured that its rule in Iran is guaranteed. But that may be a desperate gamble—and some observers are already predicting that the IRP's little game may blow up in their face. One such warning came in a *New York Times* article by Barry Rubin of Georgetown's Center for Strategic and International Studies, who delivered the opinion that just as Iranian Prime Minister Mossadegh in the 1950s escalated his demands too far until they backfired, today the IRP may find itself making the same "fatal mistake."

revolution from proceeding smoothly.

The choice facing Reagan's administration is between two simple alternatives. Either the Reagan administration will work out a viable post-Khomeini regime in concert with its allies, the U.S.S.R., and the Arabs, to bring about a moderate government centered around the military, or Khomeini's regime will collapse of its own weight in the near future and disintegrate into civil war.

Many sources currently are willing to predict a civil war in Iran. Princeton University's Prof. Richard Falk, for instance, who has been a strong backer of Khomeini since 1977 and who headed the U.S. People's Committee on Iran, said last week, "I just spoke with a source in Teheran. They are convinced that Iran is moving to the breaking point and that civil war will break out. Khomeini has lost control of the factions."

Added Falk, "Before the Iraqi attack I would have thought that the IRP could win in a civil war, but now, if the Mujaheddin [leftist Muslim militia] and Fedayeen along with the military back Bani-Sadr, I think he could come out on top."

Actually, the forces that put Khomeini in power perceive that, together, Reagan and the U.S.S.R. might agree on efficiently removing Khomeini and the mullahs, then they will be prepared to precipitate a civil war. To accomplish that, the British and the Anglo-Jesuit intelligence faction will seek to polarize Iran into right- and left-wing camps, pitting the proclergy militia and the Revolutionary Guard against the leftist Mujaheddin and Fedayeen organizations.

The Bani-Sadr option

From completely different standpoints, the anti-Khomeini opposition and the so-called Iranian liberals are looking at President Bani-Sadr as the key actor in the current situation.

Said one Iraqi source, "We know that Bani-Sadr is making a power play. But we also know that some Iranian generals and other officers are moving very fast. The important thing to keep in mind is that the idea of a religious state in Iran is dead, and the ideology of nationalism is gaining in Iran. The regime that succeeds Khomeini will be a nationalist one. There will be no Islamic revolution."

He continued, "Our strategy is the following. We knew that as long as we fought the war with Iran we would unify the country, but we also knew that this would be only temporary. Now, we have halted the fighting, and exactly what we knew would happen is happening. The country is disintegrating politically. We are watching every faction: Khomeini's group, the Rajai group, the Bani-Sadr group, the Ghotbzadeh group, the military, the tribes.

"You see, we have made an offer to Iran to stop the war and to make peace, to negotiate. That has caused a great crisis in Iran: everyone is fighting with everyone else. The basic issue is that Iran is now forced to admit defeat by Iraq—and everyone will blame that defeat on the mullahs. They cannot cover it up any longer. The army tried to make a counterattack on Abadan several times, and now people are beginning to wonder."

Since the beginning of the war, Bani-Sadr and his allies have attempted to maneuver themselves into a position from which they can capitalize on the anticlergy ferment touched off by the war. Since last year, Bani-Sadr has not had a power base that could support him against the clergy, which used the Revolutionary Guard and the *komitehs,* or Revolutionary Committees, to maintain their power. By appearing in military uniform and by consistently arguing the case for the armed forces, Bani-Sadr has won some support from the weakened Iranian military.

From Bani-Sadr's point of view, his strategy is as follows.

Around himself, Bani-Sadr has rallied a small group of so-called Iranian liberals such as Dr. Ibrahim Yazdi, Sadegh Ghotbzadeh, Mehdi Bazargan, Mustafa Chamran, and Amir Entezam. Within Iranian politics, this is the faction closest to American and British intelligence, and they are generally pro-Western from the standpoint of the Brzezinski policy of establishing an alliance with the Muslim Brotherhood. During the prerevolutionary period, this group clustered around Khomeini in Iraq and then in Paris, becoming his closest advisers and political confidants.

Since late November, the Bani-Sadr group began its political offensive.

In a letter to Ayatollah Khomeini late in November,

Upsurge in Tabriz

In Tabriz, Iran's second city in northwestern Iran, anti-Khomeini demonstrators took over part of the city Dec. 17, including the television station there.

Having seized the station, the anticlergy partisans staged a broadcast drama that brought home the nature of the protest wave currently sweeping Iran. Taking a photograph of Ayatollah Khomeini, the demonstrators ripped it into shreds and then burned it—for all the population of Azerbaijan, Iran's most populous district, to see.

Khomeini, in a statement issued afterwards, pretended to be unfazed. "If my picture is insulted, then the people should show no reaction."

Iraqi soldiers returning from the Abadan front in September.

Bani-Sadr demanded the resignation of Prime Minister Mohammed Ali Rajai, an IRP member who comes from the Fedayeen-e Islam. "The presence of the current government is more disastrous than a war," said Bani-Sadr. "This government is not worthy of the situation and the fate of the country should not be left to those who do not have the slightest knowledge about the country's position, and whose capabilities are minimal."

According to Iranian sources, behind the scenes Bani-Sadr is pushing for former Foreign Minister Ghotbzadeh to replace Rajai.

The response from the mullahs was immediate. Hossein Khomeini, grandson of the ayatollah, blasted Bani-Sadr. "Today, those who have gathered under the umbrella of Mr. Bani-Sadr want to start acting against the imam. They have made grave errors. The friends of Mr. Bani-Sadr are falling away. The clerical figures who had issued communiqués supporting him for the presidency repent today. I myself was very active in his campaign for the presidency, but today I see there is a big conspiracy against the imam."

In demonstrations organized across the country by the IRP, the slogan was: "The clergy fights, the liberals tremble."

Then, on Dec. 11, the IRP issued an official statement registering its distress over the threat of a Bani-Sadr power play. "It is clear to everyone that at present there is a dreadful plot to crush the Islamic Revolution with the help of some elements related to the United States," said the IRP. Without mentioning Bani-Sadr by name, the IRP statement accused certain Iranian officials of having "allied themselves with coup d'état plotters," a reference to Bani-Sadr's action in freeing Iranian air force officers jailed earlier this year for anti-Khomeini activities.

But Bani-Sadr continued to gain momentum—not because of the inherent appeal of the Bani-Sadr group, but because of the precipitous collapse of the prestige of the mullahs. Aides to Bani-Sadr, such as Ahmed Salamatian and Ayatollah Lahouti, toured the outlying cities and led rallies to break the power of the IRP. But those rallies, themselves organized spontaneously, were built on slogans chanted defiantly: "Death to Beheshti! Death to Rafsanjani! Death to Khameini!", three prominent mullahs in the IRP leadership.

Working alongside Bani-Sadr, Ghotbzadeh this month renewed charges first made last year that many of the members of the IRP, including leading ayatollahs such as Beheshti, previously worked for the Savak, the shah's old security police. In 1979, when the revolution first seized power, Ghotbzadeh and Lahouti took control of the old Savak files, and added to them when Ibrahim Yazdi's son-in-law Shahriar Rouhani, Iran's ambassador to the United States, sent the massive embassy files home to Teheran. With that material, Ghotbzadeh and Yazdi have accumulated enormous ammunition with which to blackmail several leading Iranian religious figures.

Can Bani-Sadr rule Iran?

Because the political power of the mullahs and Khomeini—who is expected to die soon anyway—is virtually nil, Bani-Sadr is the great hope of those who are trying to maintain the existence of the Islamic Republic.

The chief support for Bani-Sadr at present is the Second International.

At a meeting in Washington, D.C. last week of the entire Second International apparatus, attended by Olof Palme, Willy Brandt, Anthony Wedgwood Benn, and large numbers of European socialists, the issue of Iran was intensively discussed, especially in private meetings. The consensus, as shown in the interview below with Thomas Ricks of Georgetown University, was that only Bani-Sadr and the liberals can salvage Iran.

In Iran itself, the key contact man near Bani-Sadr—for the Carter administration, for the Second International, and for Henry Kissinger—is Mansour Fahrang, formerly Iran's ambassador to the United Nations.

Shahpour Bakhtiar broadcasts to Iran

The most prominent Iranian opposition figure is Shahpour Bakhtiar, the former prime minister, who broadcast the following interview into Iran from his clandestine radio transmitters outside Iran. The interview, first given to the Iran Tribune, *is the sort of informational broadcast that is now rallying anti-Khomeini sentiment throughout Iran. In the interview, Bakhtiar acknowledged that Baghdad has every reason to attack Iran for spreading its medieval revolution across its borders. Bracketed sections are in the original, except where noted.*

The *Iran Tribune* corresponded asked: Dr. Bakhtiar, in your opinion will Khomeini's regime be unable to continue?

Dr. Shahpour Bakhtiar said: [It can continue] only on the condition that it continues its assassinations, that fear is spread everywhere, and fresh blood is shed, Khomeini's regime needs fresh blood. As soon as blood is not shed, this accursed person will fall. His mission is bloodshed in Iran. The youths are dying; their blood taints the ground. But what does this matter as far as Khomeini is concerned? For him it is only important that the people are terrified, that they fear for their own lives and the lives of their dear ones. The mullahs live in the best palaces and houses. They are guarded from above and below. But the youths are falling like autumn leaves so that, as Mr. Khomeini puts it, they can go to paradise in the other world. Actually . . . at present in this same world 36 million Iranians are being burned in the fires of hell.

The correspondent asked: Dr. Bakhtiar, did Iraq's attack gainst Iran prevent the fall of Khomeini's regime?

Dr. Bakhtiar replied: I believe that Iraq should not have attacked. The Iranians are patriots. Each Iranian loves his homeland as his life and reacts against any foreign invasion. But Mr. Khomeini should be made to understand that if the people of the country are fighting, it is not to defend Khomeini but to defend Iran. But you who do not like Iran, you who are more concerned with the Muslim *ummah* [community of believers—ed.] and not the Iranian nation, then what are you doing in Iran? You are yet another foreigner in this country who has occupied our country by force. Go to a place where you can find a Muslim *ummah*.

The *Iran Tribune* correspondent then asked: Dr. Bakhtiar, why did a group say that in this war you sided with Iraq?

In reply, Dr. Bakhtiar said: Let me use the language spoken by these criminals in order to say that this is [words indistinct]. I issued a statement. . . . I am not a man to go back on what I said. I say once again: Between Khomeini and Saddam [Hussein—ed.], I choose Saddam. But with regard to Iran and Iraq, there is no room for discussion. Definitely Iran is my homeland, and I consider Iran above any other place. But in the war between Saddam and Khomeini, Mr. Khomeini is to blame because he is the one who has always wanted to export his false revolution. Khomeini wanted to start a war between Shiites and Sunnis. For years Shiites and Sunnis lived peacefully in Iran and elsewhere; there were no differences between them. Even Bani-Sadr said this, that "we should export this Islamic revolution abroad." If you see that your neighbor [is threatening] your home, will you not take steps? If someone wants to set you afire, will you allow him to do anything he pleases? Naturally he will react, and the result will be the Iran-Iraq war. In this war neither Ahmad Khomeini nor Mr. Bani-Sadr will be martyred, but a group of innocent . . . people and our youths are the ones who are killed in this war.

The *Iran Tribune* correspondent then asked: Dr. Bakhtiar, does the National Resistance Movement of Iran, of which you are the leader, follow the objectives of de Gaulle, leader of the French national resistance?

Dr. Shahpour Bakhtiar replied: My objective, as that of de Gaulle, has been and continues to be the saving of the homeland from the claws of the enemy. In my opinion the Gestapo treated the French more humanely than the way that Mr. Khomeini and his [mad] associates treat the Iranian nation. See what happened in the German courts and what is happening in the courts of the mullahs. These people know nothing of law and legality. They slaughter the people like hens. There is neither court nor defense. Only the person who has money can be saved from death. These plunderers thirst for blood and money. Hangings, life imprisonments, and other imprisonments are all [word indistinct]. Do you not know these things? . . .

Earlier this year, and even in 1979 just before the seizure of the U.S. embassy, Fahrang played an important role in what was reported widely to be a coup d'état attempt by Bani-Sadr, Yazdi, Entezam, and others that had been conceived and directed by Willy Brandt. Now, Olof Palme—the former Swedish prime minister and confidant of Brandt—has established himself as the official United Nations mediator in the Iraq-Iran war, and he expects to go back to the Middle East early in January on a visit in which it is expected that he will act to further strengthen the Bani-Sadr faction. During his visit this week to Washington and New York, Palme talked with U.S. intelligence officials, Kissinger, Arab League ambassador Clovis Maksoud, and Kurt Waldheim of the United Nations.

In an interview with the *Christian Science Monitor,* Fahrang revealed the thinking of the Bani-Sadr group by making the first Iranian peace offering to Iraq to end a war which has crippled Iran. "We are ready to work out a face-saving device for Saddam Hussein [of Iraq] so that he can justify and ratify his actions," said Fahrang.

More important, Fahrang became possibly the first Iranian official publicly to call Khomeini insane. Iran, he said, cannot hope to overthrow the Baathist regime in Iraq by continuing the war. But, he added, "Phrased in other words, how do we convince Khomeini of political realities? How can we work on the assumption of the downfall of the Baath regime when we don't know how long this will take?" Instead, he offered to find a solution with Iraq based on the previously ratified 1975 Iran-Iraq accord for the Shatt al-Arab waterway and boundary.

"The problem is," said Fahrang, "that Bani-Sadr's conception of Iran leaves room for the fundamentalists. But the fundamentalists do not envision any future for the president."

Outside Iran, the Second International is now trying to use such initiatives as Fahrang's to build an exile constituency to stabilize Iran's Islamic Republic around a Bani-Sadr regime still heavily based on the mullahs, but with the secular liberals in control. Former Iranian Prime Minister Ali Amini, an old British agent in Iran who worked with President Kennedy in the early sixties, is said to be the center of such a group that also includes such figures as Admiral Ahmad Madani, former National Iranian Oil Company chief Hassan Nazih, and some others. Madani and Nazih cooperated with the regime of Khomeini during the first year or so after the revolution, but were then forced out of the country. Because of their role as collaborators, they are not trusted by the majority of the exiles. It is said now that Madani and Nazih might return to Iran if Bani-Sadr were able to consolidate power.

However, it is almost certain that even if the Iranian president manages to oust the IRP and consolidate power, he will not last long.

"If Bani-Sadr does make a coup, he will be a puppet of the generals, nothing more," said one leading source in the exile community. "They will get rid of him as soon as they can."

According to Iranian and Arab sources as well as sources in the U.S. intelligence community, it is considered unlikely that Bani-Sadr can rule the country. What is happening, in fact, is that every political center of opposition to Khomeini and the IRP is using Bani-Sadr to advance its own leverage in the country. Said one source, "For instance, Ayatollah Shareatmadari, who has always opposed the Khomeini mafia, has been under house arrest for a year. Now, some people are reporting that he has managed to escape his prison in Qom and flee up to Tabriz, his home base. In any case, Shareatmadari is using Bani-Sadr now to gain some elbow room for his movement."

Fariborz Nazari challenges Palme

The following are excerpts from an Open Letter to former Swedish Prime Minister Olof Palme, who is a leading figure in the Second International and is currently United Nations mediator in the Iraq-Iran war. The author of the letter, Prof. Fariborz Nozari, is a leading figure in current Iranian exile politics and, reportedly, is close to Gen. Bahram Aryana, former Iranian chief of staff who now lives in Paris. Dr. Nozari's brother was murdered in Iran by Khomeini's gangs.

A few months ago when you were in Teheran, in connection with the American hostage drama, you must have noticed the black clouds of barbarous backwardness which were shadowing a country once called the mother of the world civilization. In spite of the serious violation of the most sacred norms of international law *and* in spite of the crimes of genocide against minorities and intellectuals *and* despite the mass-assassination of the country's honest and talented military and civilians by the regime of the criminal mullahs, on your return to Sweden, you shamelessly commented that "they (the mullahs) are establishing a democracy with pedantic accuracy." At that time I did not bother to give you a reply on such an atrocious remark. I did not think anybody would take you seriously.

Be that as it may. However, when about ten days ago your friend Kurt Waldheim, who, by means of his silence has given a free hand to the mullahs to commit all sorts of national and international crimes during the last two years, and who, after several weeks of war in the Persian Gulf region, suddenly began to think of his duties as the Secretary General of the United Nations, called you to New York to mediate in the conflict, I did not believe that you would once again make a fool of yourself. This time you did surpass yourself by stating in Teheran, to mass-media reporters, that "the people of Iran are building up their country!". . .

I believe, Mr. Palme, that you owe an apology to more than two million homeless Iranians wandering around the world, escaping from Khomeini's tyranny; the masses of Iranians living under the continuous terror of the mullahs' reign; and, the large number of relatives of the victims of the crime of genocide and all sorts of barbaric mass murders committed by the mullahs. In spite of your attempt to ignore the facts, you must have known all the time that the whole story is about a bloodthirsty old lunatic who believes in destruction rather than construction; who wants nothing but personal revenge; who has no respect for human life or human rights; who does not recognize any established norms of common behavior; and, to whom terms like national interests, social values, human dignity, and integrity bear no meanings. . . .

And, if the Iranian army receives the necessary weapons and equipment, in an effort to recover from the humiliation caused to them by the mullahs, they will defeat Iraq militarily. This will give Khomeini the opportunity to bring about total destruction to Iraq creating, consequently, chaos and disaster in the entire Persian Gulf region. The question then arises whether this was the main objective of the leaders of the Western world when they planned the fall of the late shah by helping a lunatic like Khomeini to power. In that case the real beneficiary of such a situation in the long term, the Soviet Union, should demonstrate its gratitude for this fortunate windfall to the "master-planners.". . .

Finally, what kind of a man are you, Mr. Palme? A few years ago, during the reign of the late shah, you begged him for a personal favor by granting you a large amount of money on an advantageous basis. For that, you regarded him as a great man and savior as long as he was in power. Today, you are not only praising the criminal mullahs, but by also doing their bidding, have joined their other errand-boys like Bani-Sadr, Ghotbzadeh and Rajai.

What's next?

Fariborz Nozari
Professor
of International Law

Thomas Ricks on Bani-Sadr's politics

An excerpt from an interview with Prof. Thomas Ricks of Georgetown University's Center for Contemporary Arab Studies in Washington, D.C. Ricks is a left-leaning, Jesuit-trained Iran specialist who helped bring about the Khomeini regime. Ricks is soon leaving for Israel to attend a conference of the West German Friedrich Ebert Stiftung (Foundation), tied to the Willy Brandt wing of the SPD.

Q: Was Bani-Sadr discussed at the recent Second International meeting in Washington?

A: Oh, yes, Bani-Sadr is indeed a Social Democrat of the German 1880s kind. He is prepared to work for socialist principles within a parliamentary context. When Willy Brandt and company were here, the subject of Bani-Sadr came up. I spent a long evening talking to people who had been at that conference, and Bani-Sadr was discussed from this standpoint. It was clear even before the conference that Bani-Sadr was being looked at a lot by the Second International. The people I talked to discussed Bani-Sadr in a European context: what does Bani-Sadr mean for Europe? Bani-Sadr stands for *limited* capital development, through special trade accords. Everybody agreed on that, that it has to be limited, not like the shah.

William Beeman fears new U.S. Iran policy

An excerpted interview with William Beeman of Brown University, a member of the Iran Society, who has U.S. intelligence connections.

Q: What do you think Reagan will do concerning Iran?

A: Who knows? I don't know one Iran specialist who has consulted with Reagan's people. Not one! In fact I am very disturbed by what a friend of mine, the son of Reagan adviser Richard Pipes, has been saying. David Pipes wrote that we should no longer negotiate with Iran, since we are sacrificing our national honor. Well, let me tell you: if we take that attitude with Iran, we are going to see that country swing to the left. . . .

I think the thing that people should be concerned about is that Reagan is dealing with Iran with no adequate intelligence. He will blindly try to impose his will. For Reagan, his best friend in the area will be Saudi Arabia.

Ibn Sina and the potential for a new Euro-Arab renaissance

by Mary Brannan

A conference sponsored by the *Executive Intelligence Review* and Humanist Academy in Paris on the millennium of the birth of the great Islamic scientist ibn Sina (Avicenna), "The Fight for Progress and Science," provoked an uproar rarely seen among French and Middle Eastern political and intellectual circles. In the days preceding the Dec. 12-13 conference, newspaper headlines told of "Polemics around Avicenna Conference." Several scheduled conference participants hastily withdrew—including one who falsely announced in the pages of the prestigious French newspaper *Le Monde* that the conference had been postponed—and others were severely pressured not to take part. This unsuccessful attempt to disrupt the ibn Sina conference, conducted by the Khomeiniite Muslim Brotherhood terrorists and their European cothinkers in the Second International, displayed their fear of the power of ideas. Born in 980, and living in the area which is now Afghanistan and Iran, ibn Sina, both as a thinker and a political leader, was the outstanding figure in the Arab Renaissance. His writings on science, philosophy, and medicine preserved and developed the Platonic epistemology, the science of how human mind works, and sparked the Italian Renaissance which revived civilization in the modern world.

The continuing significance of ibn Sina's ideas for science today in the fight against irrationalism and academic sterility was the theme of the conference. Attending were 150 French and Middle Eastern intellectuals, political figures, engineers, scientists, and students, including representatives of several embassies, and Dr. Osmond Bakar of the University of Malaysia, which is planning a July 1981 conference on ibn Sina. Journalists representing the French and German national wire services, the major Paris dailies, and Kuwaiti and Saudi newspapers covered the conference.

Criton Zoakos, editor-in-chief of the *Executive Intelligence Review*, gave the keynote address, on ibn Sina's conception of the Necessary Existent, asserting that the method of ibn Sina is essential for the solution of the scientific problems facing us today, notably in the field of fusion energy. The key conceptual difficulty in fusion power, said Zoakos, is the problem of the "field-particle paradox." This problem, which takes the form "do the elementary particles exist as primary elements, or is the real existent the geometry of dynamic relationships which defines the 'particles'?" can be solved by using the epistemological method of ibn Sina.

Zoakos explained that "ibn Sina divided the world into two domains: the ephemeral and the eternal. This is the first statement of relativistic physics." Ibn Sina defined a material object as "a specific organization of space—a remarkably accurate description of an electron," Zoakos noted.

'Man's identity is reason'

In particular, he said, "scientists must understand ibn Sina's essential contribution to epistemology: that the human mind must first develop a consciousness of itself. The act of knowledge involves three elements: the Knower, the Known, and Knowledge, and when man examines himself as the object of Knowledge, the Knower and the object of Knowledge become one. In that way, individual human beings understand that 'I am Knower, the Known, and Knowledge.' The individual's very identity becomes Knowledge. It is this knowledge which makes man different from other species. And it is this sense of identity as Knowledge which societies must be organized to fulfill in human beings."

Zoakos concluded that "the body of knowledge contributed by ibn Sina belongs to the domain of the eternal. The future of his ideas is secure. The question facing us, is what is going to happen to the nations of the Middle East and Europe? If those nations fail to master and advance the ideas of ibn Sina they will suffer." If they succeed, he added, "Nations will flourish and civilization will outshine the grandeur of the Islamic Renaissance of the Middle Ages."

The discussion following Zoakos's presentation focused on the content of scientific policy. Zoakos challenged the audience, saying that it is up to them, to scientists, to stop the starvation of millions of people, and gave as a graphic example of the implementation of Club of Rome policy the devastation of Cambodia under the Pol Pot butchers.

When Zoakos added that this is precisely what is taking place in Iran, a storm of protest arose from members of the audience. "The Iranian model cannot be judged by any standard other than its own," one declared.

Zoakos responded that ibn Sina, himself the greatest Iranian in history, "wrote that there is one higher universal Reason which subordinates all others, and—unless Khomeini wants to declare ibn Sina wrong and [medieval Islamic bestialist] al-Ghazali right—You are wrong when you say that the Iranian revolution can be judged on the basis of any other Reason than mine."

Cities and self-perfection

Professor Aly Mazaheri, a historian and teacher at the Ecole des Hautes Etudes en Science Sociale (School of Advanced Studies in Social Science) in Paris, outlined the thought of ibn Sina's cothinker al-Farabi on the state. Describing al-Farabi's book on the "Virtuous City"—better translated, said Mazaheri, as "The Scientific City,"—he said that al-Farabi described cities, a concept equivalent for all modern intents and purposes to the state, as the necessary condition for human development.

Man can perfect himself only in a city, al-Farabi said, because only the city offers mankind the social conditions requisite to scientific development. This principle of scientific inquiry applies equally to the government of cities, which should be composed of directorates of several people, through whose ongoing dialogue wisdom can be increased. Al Farabi said that the more a state advances toward perfection—toward industrialization, Mazaheri specified—and wisdom, the stronger it would grow. Al-Farabi stressed that the citizens, not only the rulers, must be educated in wisdom, and denounced cities where religious dictatorships prevented the increase and spread of knowledge.

Following Professor Mazaheri's speech, the discussion drew the wrath of cultural relativists in the audience. "If you say that there is one superior philosophy," said one participant, "this is tyranny!" Again using ibn Sina's method, Zoakos responded: "You are putting forward this argument to convince me that there is not one Reason but that there are many reasons. However, if you succeed in convincing me, then there is universal agreement, and therefore one universal Reason! Reason has no need to impose itself with tyranny; only unreason needs to resort to violence. If societies fail to regenerate the faith of their citizens in Reason, then they will collapse into a miasma of unreason, violence, and tryanny," concluded Zoakos.

Ibn Sina's influence in Europe

Mrs. Helga Zepp-LaRouche of the Humanist Academy, who chairs the European Labor Party in Germany, was to have addressed the conference Dec. 13 on ibn Sina's influence in Europe. However, as Zoakos explained, threats against her had made her attendance impossible. "We have made many enemies because of our achievements," said Mr. Zoakos, and named some of those who had tried to destroy the ibn Sina conference, including some United Nations and Unesco-related circles, and circles associated with French Socialist Party leader François Mitterrand. In Mrs. Zepp-LaRouche's absence, Zoakos presented the conclusions of her study.

Shortly after ibn Sina's death, his works were translated into Latin and widely circulated throughout Europe. Among those influenced by his ideas were Pope Sylvester II, known as "the Pope with the Arab spirit," Roger Bacon, and Cardinal Nicholas of Cusa. Bacon promoted the study of ibn Sina and founded an Avicennian faction among scholars in Paris.

Cusa's concept of the "Non-Other," discovered Mrs. Zepp-LaRouche, is identical to ibn Sina's Necessary Existent. Following ibn Sina, Cusa demonstrates that the laws governing the human mind are identical to the laws governing material processes in the universe. The invariant in the life of the universe is the succession of moments of transformation from one domain of lawfulness to higher laws. This principle is equivalent to the most advanced conception in modern science, negentropy.

The question of political program is also addressed by Cusa, who said that each individual must act to fulfil his creative potential, and that harmony between states and individuals can only be achieved when both are committed to the development of creativity. "When people like Sartre are accepted as intellectuals," said Zoakos, "then we are really oppressed. There could be nothing more exciting, however, than having three and a half billion excited, developing minds around us!"

The final presentation was made by Ezzar Rastkar, an expert on Iranian poetry and former professor of methodology at the University of Teheran, who outlined the traditional themes of Persian mysticism, the cult of Mithra, and the influence of ibn Sina's father, a member of the so-called Egyptian school, on his son. Rastkar debunked those who claim that ibn Sina was in any way an Aristotelian and pointed to his attacks on Aristotle. Zoakos commented that whatever influence his father and the Mithra cult might have had on the young ibn Sina, ibn Sina's own search for the cause of things can alone explain his thought.

Brezhnev reasserts a war-avoidance policy

by Rachel Douglas

A five-point proposal for the security of the Persian Gulf made by Soviet President Leonid Brezhnev Dec. 10 during a visit to India marks the re-emergence of a war-avoidance policy from Moscow. Brezhnev called on the United States, Western Europe, the People's Republic of China, and Japan to join with the Soviet bloc in assuming "mutual obligations" to secure the region from war.

U.S. Secretary of State Edmund Muskie glibly dismissed the Soviet offer as a "fox in the chicken coop" proposal—referring to the Soviet military presence in Afghanistan. Yet Brezhnev's plan provides the kind of political framework which could make possible an eventual Soviet withdrawal from that country. The plan was immediately welcomed by the Gulf states of Kuwait and the United Arab Emirates, while Saudi Arabia said the proposal should be studied and a common Arab position on it drawn up.

Brezhnev's initiative follows a lengthy period in which Soviet policy toward the Middle East has been based primarily on the Arab communist parties and the radical states of Libya and Syria. The Soviet leadership has been embroiled in factional battles over the Polish crisis. Marxist-Leninist "hardliners," allied with worried nationalistic military leaders and cynical British-linked layers of the KGB intelligence service, were conspiring to use the Polish situation to wreck East-West cooperation—whether by provoking a Soviet military invasion of Poland or just by using the Polish developments to purge the advocates of détente from leading positions in both Poland and the Soviet Union.

These factional battles are by no means resolved. But Brezhnev's move, combined with signals to the United States and Western Europe coming from high-ranking associates of the Soviet President, point to a growing recognition that détente would indeed not survive a Warsaw Pact invasion of Poland, and threaten both Soviet national interests and world peace.

What will Reagan do?

Whether or not this perception continues depends as much on events in Washington and Western Europe as on the factional battles in Moscow. If the incoming Reagan administration works to support the efforts of Bonn and Paris to maintain a workable and productive relationship with the Soviet Union, this will bolster the Soviet political forces which orient toward cooperation with the capitalist world, and thereby lessen the likelihood of military action against Poland.

Ironically, the fact that Western Europe refused to commit itself, at a NATO foreign ministers meeting in Brussels Dec. 12, to a catalogue of sanctions requested by the United States "in case" of a Soviet invasion of Poland, has contributed most to actually preventing an invasion. Had the Europeans lined up behind Secretary Muskie, the Soviet antidétente "hardliners" would have been strengthened. Instead, the French and West German governments are forging ahead on large-scale energy deals with the U.S.S.R., deals which will underwrite political ties with a firm foundation of mutual economic benefit.

Valentin Falin, the former Soviet ambassador to West Germany who is now deputy chief of information for the Soviet Communist Party Central Committee, appealed to both the U.S. and Western Europe to continue this policy. Falin, from his post in Bonn during the 1970s, was a key figure in building up Brezhnev's negotiations with Chancellor Schmidt, including the historic May 1978 Bonn summit which resulted in a 25-year treaty of peace and cooperation.

Falin, interviewed in the Dec. 15 issue of the West German weekly *Der Spiegel*, criticized the American foreign policy running from Henry Kissinger's manipulation of the October 1973 Middle East war through the four years of the Carter administration. "The whole world knows how the American voters have judged this policy," Falin commented. He said that he expected a more "consistent" policy from Reagan.

Falin denied that Moscow wants to split Western Europe from the United States. "We have never wanted to nor been able to uphold the view that West Germany or all of Western Europe should steer a policy against the United States," he said. "Whoever thinks this does not understand anything about the modern alignments."

Falin declared that Moscow is confident that the Polish leadership could maintain control of the situation in Poland within the existing power structure.

Twice, he contradicted the spirit of some commentaries on Poland from within the Soviet bloc, commentaries that appeared to press for a showdown. He stressed that the Kremlin was evaluating Polish events by relying "not on the reports of journalists, not even primarily TASS, but on the estimations given by the Polish leadership," an allusion to a Soviet news agency release recently about the strength of "counterrevolutionaries" in Poland. That release was not carrried in the central Soviet press.

He said it would be wrong to "reproach our Polish friends" for borrowing too much from the West—a defense of former Polish leader Edward Gierek's industrialization policies. Falin pointed out that borrowers in the East and the West had both made mistakes because "it is not so easy to take into account all connections, especially given the vacillating world conjuncture."

The Polish leadership under Stanislaw Kania has effectively been granted a breathing space by the Kremlin to try to consolidate a stable government and to reverse the country's precipitous economic decline. This was the outcome of a summit meeting of the Warsaw Pact in Moscow Dec. 5. Following this meeting, military maneuvers near the Polish border concluded, and Polish party, Church, and trade-union leaders all began to issue appeals for national unity and reconciliation to prevent a national "catastrophe."

The current lull is unstable, however, and pressure for a Soviet military intervention can be expected to resume if the economic situation and the country's slide toward anarchosyndicalism is not reversed.

Leonid Brezhnev's five-point proposal

In a speech to the Indian Parliament Dec. 10, Soviet President Leonid Brezhnev made the following five-point proposal for security of the Persian Gulf:

The region of the Persian Gulf and the Indian Ocean is becoming an increasingly more dangerous seat of international tension. On the invented pretext of the protection of their "vital interests," powers situated many thousands of kilometers away from the region have concentrated there a military armada and are intensively building up armaments, expanding the network of their military bases, subjecting to pressure and threats the small countries which do not follow in their wake.

Attempts are being made to justify such actions by talk of the "Soviet threat" to that region's oil wealth. It goes without saying that this is sheer fabrication, and its authors are well aware of that. The U.S.S.R. does not intend to encroach either on the Middle East oil or its supply route.

Certainly, for us it is not at all the same what is taking place in the area which is so close to our frontiers. We want a normal, calm situation to be created here. We advocate the doctrine of peace and security, which offsets the imperialist doctrine of aggression and *diktat* against the Persian Gulf countries.

These are not mere words. This is our real policy. We propose to the United States, other Western powers, China, Japan, all the states which will show interest in this, to agree on the following mutual obligations:

- Not to establish foreign military bases in the area of the Persian Gulf and adjacent islands; not to deploy nuclear or any other weapons of mass destruction there;
- Not to use and not to threaten with the use of force against the countries of the Persian Gulf area, not to interfere into their internal affairs;
- To respect the status of nonalignment, chosen by Persian Gulf states; not to draw them into military groupings with the participation of nuclear powers;
- To respect the sovereign right of the states of the region to their natural resources;
- Not to raise any obstacles or threats to normal trade exchange and the use of sea lanes that link the states of that region with other countries of the world.

We believe that such an accord, with the states of the region themselves to be, naturally, full-fledged parties to it, would meet their vital interests. This would be a reliable guarantee of ensuring their sovereign rights and security.

The Brezhnev visit: a tribute to Gandhi

by Daniel Sneider

The following article is based on reports from our New Delhi correspondent, Paul Zykofsky.

The four-day visit of Soviet President Brezhnev to India comes seven years after his previous visit. Brezhnev's welcome in 1973 was very warm and tumultuous, an expression of Indian gratitude for the strong support given them in the 1971 Bangladesh crisis and war with Pakistan, when China and the United States were threatening to intervene on the side of Pakistan. This time the welcome was no less warm, though perhaps less enthusiastic. Brezhnev was clearly an older man making his last visit to India, but in many ways the strategic issues involved were no less critical.

For the Soviets, and particularly for Brezhnev personally, the Dec. 8-11 visit was clearly considered one of the highest importance, a fact underlined by Brezhnev's use of the platform provided by a speech to the two houses of the Indian parliament to unveil a new proposal for a global Persian Gulf "peace and security" pact.

The visit was made on Brezhnev's request, and many Indians familiar with the Soviet scene were impressed with the simple fact that Brezhnev undertook the strenuous trip when it is evident that his age and health severely limit his capacities for such journeys.

The view in New Delhi was that Moscow wanted to make clear how important in world affairs it considers India to be, particularly under conditions of turmoil, war and tension in the neighboring region of Southwest Asia, and as a counterweight to China in southern Asia. A large-scale economic assistance package emerged, including some $800 million in industrial credits for coal, oil development, steel, and other infrastructure and a more than doubling of current trade levels over the next five years including increased Soviet oil exports to India. These agreements were meant to concretize the Soviet desire to maintain close relations with India and aid the efforts of the government of Prime Minister Indira Gandhi to stabilize the Indian domestic scene.

What is perhaps more important and least understood, particularly in the West, is the significance of the visit as a statement of support for Mrs. Gandhi personally and for her leadership of India. The essence of the visit took place in private meetings between Brezhnev and Gandhi, including a concluding talk reportedly lasting 80 minutes, without the presence of any aides aside from interpreters.

The two world leaders are known to have a close relationship, having risen to power in their respective nations at the same time and having developed a close understanding during that early 1970s crisis period when, as Indians often put it, "the Soviet Union stood by our side." Brezhnev made repeated warm personal references to Mrs. Gandhi in his public statements as he did in his first speech at a banquet given by Indian President Sanjiva Reddy when he said, "I make no secret of the fact that we have always had a particular liking for Shrimati Indira Gandhi, that outstanding political and state figure of contemporary Asia."

Mrs. Gandhi and Moscow

Mrs. Gandhi could find satisfaction in the outcome of the visit from several different standpoints. On the strategic level, it was a welcome statement of Soviet support at a time when Delhi views with increasing alarm the hostility of the military dictatorship of General Ziaul Haq in Pakistan, who is conducting a military buildup based on military assistance and coordination with China and support from the United States.

Uncertainties about Reagan administration policy toward the region, the prospect of an explosion of a Pakistani nuclear device in the near future, the continuing tension flowing from the Soviet presence in Afghanistan, and Pakistani backing for Afghan rebel activity, as well as the explosive nature of the situation in the Middle East, all combine to emphasize the practical value in Indian eyes of good ties with Moscow.

There is no question that many in Delhi, even aside from the professional pro-Western lobby, are unhappy with the Soviet presence in Afghanistan. Mrs. Gandhi had made it repeatedly clear that she fears the escalation of tensions in the region which could make it a point of East-West confrontation.

The Indian position remains balanced in looking for circumstances, through political negotiation, that would allow the withdrawal of Soviet forces from Afghanistan while at the same time showing understanding for the complex circumstances that led to that event. This includes the buildup of U.S. naval and other armed forces in the Indian Ocean region, a buildup that Delhi views with unconcealed distrust and even fear.

The Western press, in characteristic fashion, spent much time searching for points of difference between Brezhnev and Gandhi, particularly on Afghanistan; but in fact the differences were clear before, and there was neither a change in that or any evidence of rancor over it in the talks which took place.

Mrs. Gandhi's satisfaction also has to do with the

Indian domestic political scene. Over the past months her government, elected to power in a sweeping victory last January, has faced a concerted effort by opposition parties to destabilize the situation, particularly by exploiting frustrations over the continued economic difficulties inherited from the previous regime. Inflation and continued communal (Hindu versus Muslim), regional, and caste tensions have been manipulated against the government.

The role of the left

Mrs. Gandhi has appealed to the opposition parties to join with the government in dealing with problems like communalism, casteism, and the separatist movements in places like the northeast state of Assam, problems on which there is ostensible agreement. The appeals have largely fallen on deaf ears. A crucial element in that is the negative attitude of the Indian left, including the pro-Soviet Communist Party of India (CPI) and the more Maoist-oriented (but also Moscow-influenced) Communist Party of India-Marxist (CPM) which heads the government of several states. The Communists have continually agitated against Mrs. Gandhi's alleged "authoritarianism" while offering half-hearted support on certain foreign policy issues.

It was not lost on anyone in Delhi that the Brezhnev visit, particularly the clear statement of support for Mrs. Gandhi's personal leadership, was a direct slap at the "short-sighted" and dangerously destabilizing activities of the left, particularly the CPI, which from 1969 to 1977 was a strong and crucial supporter of Mrs. Gandhi. Mrs. Gandhi made sure the message was not lost when she spoke at a civic reception in Delhi for Brezhnev. With the Soviet president looking on, Mrs. Gandhi spoke of the Indian nationalist movement as "our revolution," a "revolution" she said that was "understandably" opposed by right-wing elements but "not so understandably" also by the leftist parties.

During the course of the visit Brezhnev had a private meeting with the leadership of the CPI, not unusual in these circumstances. Informed sources reported before the visit that the top CPI leaders were unhappy with his decision to make the visit at all. It is likely that Brezhnev made it clear that the strategic interests of the Soviet Union and the imperatives of the dangerous international situation should be clearly understood by the Communist leadership in India; whether the message got through is not yet easy to tell.

Mrs. Gandhi and Brezhnev have both acted from clear practical realities of national interest. The Reagan team could learn something from the view in Moscow of the importance of India's role in the world, as opposed to the swings from benign neglect to blundering geopolitical interventionism that have most often characterized U.S. policy toward India.

Europe rejects NATO line on East bloc

by Susan Welsh

The U.S. press is deceiving the American public with blaring headlines of "tough anti-Soviet measures" by U.S. allies.

According to the *Washington Post* or the *New York Times*, the NATO foreign ministers' meeting in Brussels Dec. 11-12 resulted in total unanimity on the Carter administration's proposal to threaten the Soviets against a possible military intervention into Poland.

U.S. press reports notwithstanding, the Dec. 11-12 NATO meeting resulted only in the release of a mild communiqué stating that, while a Soviet military move against Poland would end détente, the NATO allies were committed to pursuing dialogue with the U.S.S.R.

Instead of heating up the situation, the NATO meeting "attempted to cool the rising temperature in East-West relations," noted the British *Daily Telegraph*.

Throughout the meeting, U.S. Secretary of State Edmund Muskie was insistent that the Europeans announce the cancellation of multibillion-dollar energy deals with the Soviet Union as an automatic response to any Soviet involvement in Poland. Muskie demanded that such deals be scrapped, even if the Poles attempt to use their own army to squelch unrest from the Solidarity independent trade union. (Under international law, the Soviets are entitled to move into Poland militarily, if the Polish government requests such intervention.)

His demands were rejected; instead, the Atlantic Alliance representatives only pledged to meet in an emergency session after a Soviet military move into Poland, if it should occur, and then to discuss possible retaliation.

German weight

France is not a member of NATO, but its partner West Germany used all its leverage in NATO to block the insane demands coming from Washington.

Upon West Germany's request, the ministers held discussions on Poland in a unique "super-restricted session" with only ministers and ambassadors present, in order to keep the potential for rumors to a minimum. The West Germans refused to engage in any discussion of specific sanctions, delegating a lower body to look into measures that might be taken if the Soviet tanks roll in Poland.

Otto Wolff von Amerongen, president of the Association of West German Chambers of Commerce, declared in an interview with the *Mainzer Allgemeine Zeitung* Dec. 13 that he completely opposes demands for a "drastic cutback" in trade with the Soviet Union and Eastern Europe. Von Amerongen particularly defended the 10 billion deutschemark deal which German banks are negotiating with the Soviet Union, to build a pipeline that will supply natural gas to Western Europe. The text of the interview follows:

Q: Escalating political tensions between East and West are overshadowing the mutual exchange of goods and services. There are many voices demanding a drastic cutback in trade with the East. What do you think of that?

Amerongen: Whoever demands a drastic cutback in trade with the East in times of crisis is neglecting the importance and the special problems of this trade, although its share in the total foreign trade of the Federal Republic of Germany has for years been only between five and six percent.

But if one is trading with the East one cannot act like an automobile driver who has to change his speed when going over rough ground. It is not that simple. Particularly in foreign trade, reliability and loyalty to signed contracts are indispensable and this is the basis of our international reputation. What applies here are the rules of world trade, and trade with the East is just a part of that.

Everything we are doing now is the result of long-term negotiation processes, planning and careful production and the deployment of considerable financial means. Furthermore, we have seen that a great power like the Soviet Union, which is economically autarchical and productive, cannot be influenced in its political decision-making on the basis of economic considerations.

Q: Especially strong concern has been expressed about the announcement of a ten billion deutschemark loan by German banks to the Soviet Union. There are fears that the planned extension of Soviet natural gas supplies will increase the vulnerability of the Federal Republic in economic terms, and that additionally such a large credit makes it easier for the Soviet Union to increase its arms buildup. What is your opinion of that?

Amerongen: The ten billion deutschemark loan you mentioned is to be tied to specific projects, so far as I know. It is granted only for deliveries of pipes for the construction of huge pipelines and the necessary compressor stations, that is for civilian facility construction.

The loan cannot be used for purchases of other goods, such as for arms and military goods. Besides that, deliveries of strategic materials are forbidden by international agreement (COCOM). I think the delivery of natural gas in exchange for the credit is a good thing. I share the Federal Government's opinion that there will no increase in the energy dependency of the Federal Republic resulting from the increase in Soviet natural gas deliveries from the present 16 percent to 30 percent of German needs.

Growing problems in the crude oil sector make it appear desirable to move from oil to other resources, to decrease our dependency upon oil-producing countries. Additionally, the scheduled pipes-for-gas contracts will also involve other neighboring countries. Therefore, the contract has not a bilateral but an international character. Thus deliveries from the Soviet Union cannot be misused as a lever only against the Federal Republic.

Q: There are also credit relations to Poland. Do you share the concerns of many that Poland will, because of its overindebtedness, hardly be able to pay back its loans in time?

Amerongen: No. I do not share the concern that Poland might not be able to pay back all its loans in time. All of the East bloc countries have proven to be exemplary debtors, who have always paid their obligations in full, unlike many countries of the world, even in Europe.

Q: Is there any viable alternative to trade with the East bloc, like a reorientation towards the developing countries in the Third World?

Amerongen: There can hardly be a viable alternative to trade with the East bloc nations, and surely not by reorienting towards developing countries in the Third World. You can neither increase trade with the Third World nor decrease trade with the East intentionally. I repeat: such an alternative does not exist.

Q: What do you think will be the importance of trade between East and West during the present period and during the coming period—will the total volume shrink or will it expand?

Amerongen: Trade with the East will maintain its importance for the German economy. There are complementary ways, as the pipes-for-gas deal shows. Whether or not the total volume will expand depends on our own economic situation as well as theirs. If the economic situation worsens, naturally we will be able to import less. At the same time, the exchange of goods is determined by the other side's ability to deliver and to buy; for example, we see that the new Five Year Plan of the Soviet Union shows lower growth rates than their predecessors.

Or in other words, growth rates in trade with the East like those at the beginning of the 1970s are less likely for the 1980s because the gross national product will grow less on both sides.

Rocard: a postindustrial enragé

Garance Phau describes the French Socialist Party leader's recent address at Princeton University.

His whole demeanor reminded me of Milton's description of the devil in *Paradise Lost:* as Lucifer peers into the Garden of Eden and sees its beauty, he resolves to destroy it, blaming God for his own action.

Educated to foster France's central institutions, to develop the nation's human and technological potential, Socialist Michel Rocard has visibly committed himself to the destruction of the country he was supposed to serve as a senior official, an *Inspecteur des Finances.* This writer was reminded of wild PSU meetings she attended following the 1968 "Days of Rage," when he called upon thousands of youths to revolt and destroy French capitalism. Since then Rocard had adopted a liberal image to appeal to a managerial, middle-class following.

During the question period at the Princeton event, I pointed out the similarities between the arguments of deindustrialization currently made by the leader of the Socialist CFDT trade-union federation, Edmond Maire, a Socialist Party ally, and the speeches Rocard had delivered to the wild PSU meetings in 1968, and asked him where he stood at present. Did he agree with Maire's call for deindustrialization? Rocard's face lit up; he said the question was "excellent" and proceeded to affirm his agreement with Maire's call for effectively shutting down the French nuclear industry.

Rocard elaborated that one should distinguish between the old, "proven" nuclear technologies and the new fast breeder and reprocessing capabilities. The latter, he said, are "unsafe," and should be stopped at once. To counter its oil-import dependence, France has to resort to conventional nuclear power plants, he continued—but they require "maximum democratic controls." Rocard ended up admitting, as the Socialists have never publicly admitted in France, that "yes, there is an agreement between the CFDT and the PSF on the nuclear question." During his presentation, Rocard had already complained that the ecology movement (backed and nutured by the CFDT) "while as big as the American one, hasn't yet found a constitutional way to have an impact on the country."

The main topic Rocard said he would address in his presentation was the economic crisis, and his disagreements with French Prime Minister Raymond Barre on ways to resolve it. Barre has maintained a tight-credit, fiscal-austerity blanket on French industrial growth. Rocard's criticisms were, however, aimed in other directions. Barre is too "dirigist"; Barre supports a "strong franc," he complained. Barre does not grasp the "evil of central banks" as instruments of "industrial capitalism."

Rocard went on to instruct the Princeton audience on how the world economy is affected by "what Karl Marx called 'overproduction crises.'" "The markets become saturated," inflation runs rampant, unemployment grows, all because the economy generates a social surplus, which is invested to benefit "the few." These crises are "cyclical"; every time they occur the center for world domination in the monetary, technological, and political arena is shifted. After the 1880 to 1890 depression, the British ruled the world with the pound and the steam engine. The 1929 crisis and World War II led to American predominance with the rule of the dollar and the car industry. The crisis which started in 1972 is opening the future for electronics, biogenetics, and related "light industries." There are no new centers of command as yet, except that it is evident "it has escaped the European zone." Credit policy should be tailored to favor some of those newer light industries, and shift away from supporting the capital-intensive heavy industrial sector, guilty of overproduction. "Only small business can create jobs," said Rocard, and small businessmen know that "capitalism is not, and never has been, good for them."

Rocard launched into an attack against the principle of "rent"—mixing together speculative profits and legitimate returns on stock and equity investment. The upshot of his argument was that society ought to stop producing a net overall surplus, and turn inward, breaking up into small *féodalités,* as the late President de Gaulle called it, with workers and cottage ventures managing small regional and communal enterprises.

Rocard was asked whether he agrees with the latest proposal by French economics pundit Jacques Fabra, who was recently featured in the *Wall Street Journal* echoing the Warburg plan to force discount rates above the interbank overnight borrowing rate, and thus leave commercial banks no resort for covering reserve requirements but to call in loans and refuse to replenish credit lines.

Rocard said, "Yes, technically I absolutely agree." But Fabra and, he added, Raymond Barre, do not go far enough in recognizing "the evil of central banks" as an instrument for industrial investment. Neo-Marxist Rocard had in effect just endorsed the monetarist Friedrich von Hayek's longstanding proposal to disband central bank powers over issuance of money and credit, and eliminate any centralized repository of economic surplus for reinvestment.

I asked Rocard to comment on French politician Jean-Jacques Servan-Schreiber's view that the Third World can and should bypass industrialization and install electronics production. Rocard made a face, and replied that he definitively disagrees: He proceeded to recommmend that the underdeveloped nations get no industry at all. "Third World development is a matter of culture," he said. Looking at Iran or Brazil, he said, it is evident that industrialization creates "social contradictions which make countries explode." One should foster in both the advanced sector and the Third World an *artisanat* approach—arts and crafts. The only industries the Third World should have are those "rooted in traditional cultures," e.g. pottery and labor-intensive textiles.

The NATO question

On the question of European defense, Rocard, who had just met Henry Kissinger on the occasion of the Second International meeting in Washington Dec. 5-7, sounded very much like the former secretary of state. In particular he echoed Kissinger's complaint in the French daily *Le Figaro* two weeks ago on the lack of will by the Europeans to engage in a massive military buildup. "The Americans are right in saying that we must strengthen the Atlantic Alliance," said Rocard, and France must be the "motive force in awakening the defense reflex in Europe," for that reflex "can only come from France." In his rapid, broken English Rocard kept insisting what a disgrace it was for France not to push Europe in that direction. Rocard refrained from calling for France's re-integration into NATO, as he did six months ago, or demanding, as he did in August, that the French navy deploy to the port of Gdansk to aid Poland's striking workers. He clearly indicated, in response to individual questions after the event, his full agreement with the Second International proposal to reorganize NATO along the lines of the Atlantic Alliance Rapid Deployment Force to quickly deploy "limited war" forces throughout the world, and agreed that a Soviet invasion of Poland today would go a long way toward pushing France in that direction.

Down with the king

What is Mr. Rocard's perspective if, as he predicted, his rival Mitterrand loses the presidential elections to French President Valéry Giscard d'Estaing, and the possibility of a popular front is postponed indefinitely? Rocard pointed out that France can become "explosive," when there is "blockage of reforms," and the country has some experience in "getting rid of kings." Giscard is currently being referred to as a monarch by Anglo-American commentators and the French socialist press.

After Mitterrand...

Having occupied various high-level government posts in the 1950s and early 1960s, Michel Rocard next led the Parti Socialiste Unifié, a small social-democratic formation that became very radical during the May 1968 student riots. In mid-1973, he left the PSU to join its elder brother, the Socialist Party, and was placed on the party's executive in 1975.

Two months ago, Rocard announced his candidacy for the April 1981 presidential elections. Faced with Socialist chief François Mitterrand's determination to run, and the party's subsequent endorsement of Mitterrand, Rocard pulled out of the race. He is now devoting his energies to the consolidation of his faction in the party, expecting that Mitterrand's electoral defeat will end the aging leader's career.

Mitterrand is an advocate of the "Union of the Left" with the French Communist Party, while Rocard refuses to bow to the restrictions involved in attempting to sustain an electoral alliance with a working-class party; and Rocard rejects a "catalogue of reforms," as he characterizes the Socialist program. Mitterrand represents provincial France; faithful to his peasant soil, as he would say, he never learned any language but French. Rocard, who speaks fluent English, represents the new generation of Socialist International leaders: technocrats who do not hesitate to openly preach dismantling of industry, of labor unions, and of national sovereignty.

Mexico airs national energy plan

Timothy Rush examines its ambitious goals to supply power for industrialization, and its controversial export policy.

On Nov. 18, Mexico's Ministry of Natural Resources and Industrial Development (Sepafin) unveiled Mexico's first official Energy Program (PE).

Given Mexico's immense energy resources and their central place in Mexico's development plans, the document has been closely scrutinized within Mexico.

It holds no less interest for America and other countries who look to Mexico as a possible future source of expanded oil and gas supply.

In its basic outlines, the program shows the hallmarks of the existing, more generalized planning documents, most notably the National Industrial Development Plan (PNDI). This is so because the López Portillo government has centralized the planning process to a much higher degree than any previous Mexican government, and the same team of econometricians who drafted the PNDI wrote the energy plan. The leader of the team is Vladimiro Brailowski, reporting directly back to Sepafin minister José Andrés de Oteyza.

Though these guidelines are now standard policy points within Mexican planning, they deserve mention simply because of their sharp contrast to "limits on growth" tendencies in so many other countries.

- "The principal objective of the program is to support national economic development" set at the "ambitious" level of "long-term growth at 8 percent per year." Growth in energy production, and particularly electricity, is the pacer for the effort; energy is "the circulatory system of economic development and we must avoid thrombosis." Thus oil and gas production is slated to double over the next decade; electricity, to triple.
- This massive energy development program "will radiate powerful stimuli" to related industrial fields both "downstream"—refining, petrochemicals, and energy-intensive industry in general—and "upstream" in capital goods. Mexico in fact is predicating a hefty expansion of its domestic capital-goods industry on the basis of the energy expansion.
- Plentiful as the oil is (Mexico is number five internationally in reserves), it must be seen as a transition to alternative sources (nuclear, hydroelectric, and coal) by the beginning of the next century.
- "Above all else and before any other thing," the country "must strengthen the scientific and technical infrastructure."

The export policy, in its broadest outlines, is a reiteration of previous criteria. Exports of oil and gas are determined exclusively "as a function of the capacity of the economy to productively absorb foreign resources," and not "the volume of reserves per se, nor the requirements of other economies. . . ." Specifically, export policy seeks "to absorb modern technologies, more rapidly develop domestic production of capital goods, gain access to new markets for exports of manufactures, and achieve better financing conditions." This, in a nutshell, is the famous "oil-for-technology" approach which Mexico has been pioneering over the past three years.

The only exception to this approach, the program once again highlights, is if world agreement is reached around López Portillo's plan for world cooperation in energy production and distribution, which he presented to the United Nations in September 1979. Should that be approved, foreign oil needs would be directly taken into consideration.

In addition to these general guidelines, the program is filled with specific targets in such crucial areas of energy policy as internal pricing of oil and gas (Mexico currently has some of the lowest domestic prices in the world), choice of technologies in steel and nuclear, the structure of oil products over the next decade, and growth requirements by source of energy through 1990.

No metric

The flaw in the energy program, as in the PNDI before it, is its deficient methodology. It has no method of measuring—no "metric"—to evaluate differing *qualities* of energy use and energy production, and their implications for productivity and growth in the economy. Instead there is mere *correlation* of previous ratios of energy and growth—the kind of incompetence characteristic of the Wharton School econometric model for Mexico, which not accidentally was partially incorporated in computer runs for the program.

Exemplary of the problems this leads to is the arbitrary goal in the plan of lowering the ratio of energy growth to gross domestic product (GDP) growth from

1.7 to less than 1.0. Sometimes, as the plan emphasizes, energy-intensive processes are simply inefficient technologies and should be scrapped for better, more efficient ones. This would lower the ratio of energy to GDP growth. But as the plan also notes elsewhere, the Mexican economy as a whole is still predominantly backward and will require overall upgrading of energy intensivity in order to build up productivity. It is impossible to distinguish between the two opposite tendencies with a metric as simplistic as "energy intensivity."

The correlated problem is the PE's "energy pluralism." To the plan's formulators, basically any source is as good as another when it comes to meeting projected future demand, within general limits of availability and cost. The basic criterion becomes that of a chef preparing a nice garden salad.

Thus, while correctly dismissing the great greenie hoax, solar energy, saying that it will provide only "marginal" amounts of energy for the foreseeable future, the program fails to sufficiently weigh immediate energy policy toward nuclear, though it establishes this source as the eventual principal replacement for oil.

This and other errors in the PE are immediately apparent from the viewpoint of the triple-vector-product functions of the LaRouche-Riemann model, featured regularly in *EIR* and now in the process of being extended to specifically analyze the Mexican economy. The different "mixes" of energy and investment choices show up in the LaRouche-Riemann model as crucial differences in the capacity for the economy to generate adequate rates of tangible reinvestible surplus to meet given productivity and growth goals.

The full LaRouche-Riemann Mexican analysis is scheduled for publication in *EIR* in early 1981.

The most glaring example of a breakdown in scientific method is the section on specific hydrocarbon export policy.

The PE states from the outset of this section that "1.5 mbd of oil and 300 mcfd of gas are established as the limits of petroleum exports" for the entire decade until 1990.

In the case of oil, this is the current export target due to be filled early in 1981; for gas, it is the current level of exports to the U.S.

Together with other guidelines—such as not exporting more than 50 percent of oil to any one country and not permitting any one client to satisfy more than 20 percent of its needs with Mexican oil—this section of the PE would mean that the U.S. and other oil-importing nations could not look to Mexico for any increases in oil or gas supply for a decade.

Viewed from its domestic effects, it would emasculate Mexico's capacity to conduct oil-for-technology diplomacy and would invite a catastrophic collapse of the entire industrialization effort. The PE argues that the Mexican economy can achieve 8 percent growth without going over the 1.5 million barrel limit. This simply isn't so. It is virtually impossible to build up non-oil exports, particularly of the manufactured goods that Mexico correctly prefers to export, fast enough to cover the huge import bill for the industrialization over the short- and medium-term. Increasing use of oil export revenue is indispensable.

What happened? The supernationalists of the PE planning crowd fell hook, line, and sinker for the neo-Malthusian propaganda put out by the New York and London banking and policy crowd.

To stop Mexico's industrialization, the Council on Foreign Relations, Wharton School's Lawrence Klein,

Mexican energy program projections for installed electricity capacity

(In MWe)

Source	1970	1978	1982	1990
Hydroelectric	3,228	5,225	6,915	12,000*
Oil and natural gas	2,840	8,767	10,961	25,760*
Coal	0	0	1,200	4,000
Nuclear	0	0	1,300	2,600**
Geothermal	0	150	270	640
Solar	0	0	(negligible)	(negligible)
Total	6,068	13,992	20,654	45,000

Sources: National Energy Commission, Industry Ministry, *Executive Intelligence Review*

**EIR* estimates

**The Mexican government projects to expand nuclear capacity to 20,000 MWe by the year 2000.

and a host of related policy conduits have deluged Mexico with the "disinterested" advice that Mexico's oil development must be cut back or Mexico will face out-of-control inflation and social instability "like Iran's."

The results of the campaign are telling. The PE planners have become psychologically scared of the oil, instead of viewing it confidently and aggressively as Mexico's great opportunity and economic asset. "How do we get the genie back in the bottle?" is the underlying question, not "how do we successfully invest in production and productivity in an anti-inflationary manner?"

The contortions the document then goes through to conform to foreign neo-Malthusian thinking is astonishing.

"For merely illustrative purposes," the PE states, "we analyzed the implications of two alternative scenarios of political economy for Mexico." The first scenario is one in which Mexico's industry and agriculture stagnate and the 8 percent growth per year goal is met almost solely through increased oil-financed imports. The second calls for building up domestic industry, agriculture, and industrial exports in a manner which virtually eliminates the need for any increase in exports. The program "opts" for the second scenario.

The PE never explains why increased oil exports cannot be channeled into exactly the same industrial and agricultural growth program reserved for the second scenario. It equally fails to show how in fact the second scenario can be met without increasing oil exports.

The LaRouche-Riemann model is demonstrating further that growth rates of up to 12 percent may not only be feasible but necessary for Mexico to truly reach industrial "takeoff."

The plan does not immediately affect export levels, since the levels ratified in the program are those already in effect for the period up to the end of the López Portillo term in 1982. And it is a cardinal point that the policy determinations of one administration are not binding on the next.

De Oteyza has made two prominent statements since his release of the PE attempting to break this rule and make the document binding after 1982. He lined up labor chieftain Fidel Velázquez for preliminary support in the fight.

But as his own words of introduction to the PE emphasize, energy policy for the post López Portillo era is up for grabs: "The technical details [of the program], and even some of the concrete targets or the assumptions on which these targets are based, can and should continue being discussed and refined. The program constitutes a system of permanent analysis, planning and evaluation."

The nuclear component

Mexico's new national Energy Program (PE) clearly posits nuclear power as the major alternative world energy source to oil for medium and long-term energy supply. Nuclear "at the international level, seems to be the great option of our time, with its corresponding sequel of breeder reactors."

Domestically, the nuclear component is also slated to play a preponderant role. Although the document never states that as an explicit strategy—which is an important shortcoming—the figures do show that the government has officially adopted the previously mooted goal of 20,000 MWe from nuclear by the year 2000, which will place it second only to oil as an electricity source. The PE calls for:

• "One additional unit" of 1,300 MWe to be completed by 1990, beyond the twin reactors at Laguna Verde on the Veracruz coast, due on line in 1983. Thus the total for 1990 is 2,600 MWe.

• Through the Laguna Verde and successor plants, Mexico will "prepare the first generation of Mexican technicians and workers in this field. . . .The only effective way to assimilate a technology is through its practical application."

• Mexico foresees a rapid transition to breeder reactor technology toward the end of the century, a shift which will require "technical cadre of the highest level."

• "The selection of sites and technologies" for the full program of reactors in both the 1980s and early 1990s must be made, "starting in 1981."

• "The government will strengthen the program of Uramex [the state uranium company] in the field of uranium exploration."

• Both light and heavy water reactor systems will be used in the next stage of development. "It is probable that, as in the case of steel [where Mexico is using both blast furnace and direct reduction technologies], the best solution is not to opt for just one type of reactor, but to combine them to maintain greater maneuvering room, flexibility, and technological self-determination."

For the past two years, a furious fight between light and heavy water reactor advocates had stalled any decision on the next reactors after Laguna Verde. The PE states now, "The decision must not be deferred."

One of the most important aspects of the PE, just as in the case of Mexico's giant oil expansion, is its close planning link with Mexico's growing capital-goods industry. The nuclear plan "must begin immediately," because of long lead times and to provide detailed bills of materials for gearup of the domestic capital-goods industry.

Alberto Escoffet Artigas, the pronuclear director of the Federal Electricity Commission (CFE), stressed "by the 13th or 15th unit" in the 20-unit 20,000 MWe program, "85 to 90 percent of the components" can be produced domestically. He termed the development of the nuclear industry "indispensable" to the national economy.

The nuclear section of the PE, however, is definitely timid in terms of near-term implementation. The goal of adding just one further unit beyond Laguna Verde by 1990 means that the overwhelming weight of the program is concentrated in the final period of the plan—yet there is no mention of the annual rate of nuclear starts that will be needed to reach that ambitious goal.

There is good reason to believe that the PE's ambiguity on this point is a reflection of a policy fight over whether nuclear is primary, and whether Mexico can afford to wait before making a firm choice of nuclear technologies. This was underscored when Escoffet and Uramex director Francisco Vizcaino Murray called a press conference the very day that the PE was announced, to insist that nuclear was vital for the country's energy and industrial future, and that it had to be acted on immediately.

Vizcaino revealed that uranium reserves now have increased to 10,000 tons proven, 100,000 probable, and 500,000 potential. He emphasized that the 100,000 figure, based on uranium contained in phosphoric rock deposits now under government exploitation on the Baja California peninsula, is virtually "guaranteed." Looking ahead, the Uramex director concluded, "Mexico is a country which can pass with comfort from first generation reactors, such as those of Laguna Verde, to those of the second generation, that is breeder reactors, or, in the same period, to thermonuclear fusion."

An outline of the plan

Overall Targets

• Double oil and gas production by 1990.

• Triple electricity capacity (now 15,000 MWe) by 1990.

Export Policy

• Limit on exports to current levels and targets of 1.5 mbd of oil, and 300 mcfd of gas.

• No more than 50 percent of exports to any one country.

• No more than 20 percent of any client's oil needs satisfied by Mexico.

• No more than 50 percent of export revenue from oil.

Rationalization and Price Levels

• Cut back wasteful use of energy by the equivalent of 1.0 mbd by 1990, equivalent to savings of $11 billion.

• Bring Mexico's internal prices of industrial fuels and diesel up to 70 percent of world levels, and "virtually eliminate" differentials in all other oil products by the end of the decade.

• No basic changes in electricity price structure. Goal of 25 percent self-financing in electricity capital investments.

Oil and Petrochemical Production

• Total production levels of 3.5 mbd of oil and gas liquids in 1985; 4.1 mbd in 1990. Natural gas targets for the same years: 4.1 bcfd and 6.9 bcfd.

• An excess production capacity margin of 10 percent.

• A ratio of production and proven reserves never to dip below 15 years.

• Retooling of refineries to handle more heavy crudes from the offshore wells during the early 1980s.

• Duplicate refining capacity by 1990; construction of the equivalent of five "Minatitlans," (Minatitlan is the largest Mexican refinery today).

• Natural gas demand will exceed production until the mid-1980s, eliminating any flaring. After 1985, domestic use will have to be encouraged to avoid flaring and replace declining heating oil production.

Coal and Steel

• Steel demand will increase from 8.5 million tons in 1979 to 23 million by 1990.

• To meet this demand and avoid imports, coal production must leap approximately 3 million tons every 2 years. (Current total coke production is under 3 million tons).

• If natural gas is priced at international levels, future steel plants above 2 mtpy will be more economical with blast furnace technology; under 2 mtpy, with direct reduction. As the plan's price policy of raising internal prices toward international levels takes hold, the energy cost factor for steel "will take greater weight."

Electricity

• Hydroelectric, currently 60 percent of electricity production, will fall to 28 percent by 1990; oil-fired plants will sharply rise in proportion to production.

• There exists a 5:2:1 ratio between total hydroelectric potential; resources capable of being exploited by 2000; those exploitable by 1990.

• Coal and nuclear will rise markedly as sources of electricity (see page 38). Geothermal will also rise; solar will remain marginal.

Survival questions for Israel: economic and military strategy

by Mark Burdman

Since the election of Ronald Reagan as President of the United States, a great deal of speculation has appeared in the international press about what the election will mean for U.S. relations with Israel, and, by extension, for America's relations with the Middle East as a whole.

Much speculation has narrowly focused on the high density of "pro-Israeli" advisers in Reagan's camp, or on the possible countervailing "pro-Arab" trends from Reagan's base of support in the energy-production industry and in the corporate community generally.

The "pro-Israel" versus "pro-Arab" focus has missed the point about what is likely to be the most pressing question facing Reagan's policy team where the Arab-Israeli conflict is concerned: the disastrous plight of Israel's economy.

With annual inflation rates of 200 percent, a per capita foreign debt of approximately $6,000—by far the highest in the world—and a savage gutting of investments in industry and in social services, Israel's economy is now a primary destabilizing factor in the Middle East equation. Under the current economic conditions in Israel, no Israeli leadership has the capability to make firm, long-range decisions, but must engage in considerations of the shortest-term expediency. Any further worsening of the economic plight of the country could be the catalytic factor pushing Israel's strategists into fatal miscalculations.

Ultimately, the resolution of this problem does not lie in Jerusalem or Tel Aviv but in Washington. Israel's economy is enormously dependent for its day-by-day operations on the United States. Reagan's actual policy in coping with Israel's economic collapse, and not his professed feelings for Israel, is the key to how Israel manages this crisis.

If Reagan's policy team encourages the Israeli government to continue to adhere to the austerity strictures of Milton Friedman, as the Israeli leadership has done for the three-and-a-half-year reign of Prime Minister Menachem Begin, then the resulting devolutionary economic consequences inside Israel will propel the country into strategic miscalculation or war.

If, by contrast, the Reagan team commits itself to a policy of debt relief for Israel in the overall context of an Arab-Israeli regional development package, then the economic impetus for military confrontation will be greatly reduced.

The latter option has been recently facilitated by the just-concluded November summit meeting of Arab heads of state in Amman, Jordan which, under the influence of Iraq, Jordan, and Saudi Arabia, resolved to foster a "Year 2000" two decade program for the industrialization and development of the Arab world. In the view of Arab policy-makers, this "Year 2000" program constitutes an implicit offer to Israel to be a partner in development of the Middle East overall, with the Arab-Israel peace settlement as backdrop.

The latter option also would provide American support for a growing number of leading scientists and economic planners in Israel who are speaking out for an anti-Friedmanite perspective. This group is insisting that only a policy of rapid growth in Israel's high technology, nuclear energy, and scientific sectors can prevent the nation from disintegrating into chaos.

That such a group would surface vocally in past weeks is a reflection of how profound Israel's economic crisis has become. Conversely, as a review of the economic facts of life in Israel shows, this group is not exaggerating in the least when it warns that Israel's economy and society will collapse if dynamic solutions are not quickly put forward—both in Israel and in the United States.

'Never been worse'

The magnitude of the crisis was the subject of a recent emergency meeting called by leaders of the Israeli

Manufacturers Association and Hevrat Ovdim, the holding company for the industrial concerns of the Histadrut national labor confederation. The meeting was called to release the findings of a joint research team that had been commissioned to study the state of Israel's industrial sector.

The conclusion of the team's report was that "things have never been worse in many, many years for the industrial sector."

This somber conclusion was based on comparing what happened in Israel's industrial sector from 1976 to 1979 to what has been occurring during 1980. The team found the following startling realities: in 1980, industrial production dropped by 5 percent, as against a yearly 5.5 percent rise during the previous four years; workers employed in industry dropped by 8 percent, relative to a yearly rise of 3.7 percent in the previous four years; and investment in industry experienced a *negative* growth rate of −20 percent, as against a drop of less than 1 percent in each of the previous four years.

"These discouraging figures," the report stressed, "are a result of the government's policy of freezing the growth of the economy and reducing local consumption. Both steps were taken to reduce inflation. This policy has proved a failure."

This last assessment was aimed against the policies of Finance Minister Yigal Hurvitz, Israel's economic czar and a protégé of economist Milton Friedman. Hurvitz was installed in his post in November 1979, two weeks after United States Fed chief Paul Volcker began his policy of jacking up interest rates in the United States. Since that time, Volcker and Hurvitz have been working along parallel tracks to destroy the American and Israeli economies.

The statistics for 1980 cited by the report are the results of one year of Hurvitz's credit-gouging policies.

Like Volcker, Hurvitz has responded to criticism from producers by consciously deciding to make matters worse and generating an economic depression from the top down.

According to the Dec. 9 *Jerusalem Post*, the Israeli Finance Minister is pushing through a new budget that will mandate a 7 to 8 percent cut in public expenditures, and engineer as national policy a 25,000-person increase in unemployment.

Analyzing this latest move, the *Post* editorialized: "A policy designed to create a recession may successfully choke off output and employment. It is not very likely to slow down inflation and may even boost it."

The recessionary/inflationary double punch that Hurvitz is delivering to the Israeli economy is being abetted by his friend Volcker. According to Israeli government economic advisers, Israel is now being compelled to pay 13 percent interest rates on 30-year-maturity defense-related loans from the United States.

"This will be a drain on our economy, will worsen our debt repayment problems, and will deflect monies away from investment in industry," one Israeli economist told *EIR*. "That's why we are watching the new administration's economic attitudes so closely."

The dope-and-arms economy

Hurvitz's policies are not those of a bungler or a lunatic, although they may seem so to many Israelis. Rather, Hurvitz has a conscious, well-laid design to transform Israel into a haven for various quick-buck speculative and nonproductive operations, that are being encouraged as "solutions" to Israel's debt repayment and inflation-derived economic problems.

Hurvitz and his allies in Israel want the country to become a center of arms export, real-estate and asset-stripping speculative ventures, and "legalized" drug trafficking, to the detriment of encouraging economic processes conducive to the production of real tangible wealth. These components of Hurvitz's model economy seem to be the ideal components from the standpoint of generating fast money, although they are insane from the standpoint of the health of Israel's future.

Arms manufacture and export

According to a highly informed Washington intelligence source, Israel is due to become "one of the most intensive armaments-producing countries in the world. Israel will receive funding from South Africa to reach this goal, and will then export the arms it produces to South Africa, China, and elsewhere."

This analysis was lent credence by the recent trip to Israel by South African Finance Minister Owen Horwood. During that trip, Horwood reportedly extended a $250 million South African credit line to Israel, and Israeli sources have indicated that this credit line is in part earmarked for Israel's armament industry.

During the late-November press conference, Israeli Deputy Defense Minister Mordechai Zippori stated that Israeli arms exports had reached the $1.25 billion level over the course of the last fiscal year, a figure considered conservative in the eyes of many analysts, especially in view of a recent *Newsweek* report that Israel and China had concluded a $2 billion arms deal. Arms manufacture, while revenue-generating, is essentially a nonproductive item which tends to exacerbate inflationary trends.

Speculation and real estate

Simultaneously, Hurvitz's Friedmanite free-enterprise policies have opened the door wide for speculative and crime-linked interests to buy up much of Israel. Through easing currency regulations Hurvitz has allowed Israeli interests to become repositories for crime-derived dirty money.

One key indicator of this is the rising star of industrialist Shaul Eisenberg. For months, Eisenberg has been buying up bankrupted textile firms and other businesses in Israel. So extensive has Eisenberg's takeover operation become that he was charged with "buying up the whole country" by a top official in Israel's Labour Party earlier this month. Leading Labour Party representatives have been pressuring the government to prevent him from taking over significant market shares of Israel's Paz Oil Company.

Eisenberg is a newcomer to the Israeli scene: his primary base of operation is Asia, including China. He has been identified by intelligence sources as being involved in arms transfers between Israel and China. According to an Israeli intelligence source, Eisenberg's multinational, multibillion-dollar financial empire "has become a vehicle for the laundering of crime money."

A second indicator is that the Canadian Bronfman family, which made its fortunes in bootlegging whisky in the 1920s to gangster Meyer Lansky, and which is now one of the key families in the "Dope, Inc." cartel, has been making incursions into the Israeli real-estate market. According to the Dec. 10 *Jerusalem Post*, the partially Bronfman-owned Canada-Israel Development, Ltd. has just acquired 25 percent of the shares of one of Israel's largest real-estate interests, the Property and Building Corporation. Real-estate speculation in New York has proven to be a major haven for dirty money. Recently Bronfman-owned companies have bought heavily into New York realties.

The model example of this process in Israel has been the case of Samuel Flatto-Sharon, a member of Israel's parliament who has been indicted by a French court for financial swindles in real estate. Since fleeing to Israel in the mid-1970s, Flatto-Sharon has intruded his way into the Israeli real-estate market to a significant degree.

The 'dope economy'

The increasing involvement of crime-linked speculators in Hurvitz's free-enterprise economy is occurring simultaneously with the increasingly open advocacy of a legal drug market in Israel.

During a Nov. 24-25 symposium on drugs at Israel's Hebrew University, the director of the country's social affairs ministry, Menahem Horowitz, called for the legalization of hashish and marijuana and for the creation of a national distribution system to provide heroin "freely to proven addicts."

Horowitz was followed by a conference coordinator who suggested that cannabis, the active toxic substance in hashish and marijuana, could one day be used as an oral contraceptive, because of its proven ability to damage the reproductive hormones in rats.

These comments provoked considerable shock among Israeli health officials and police. Yet they only reflect a dramatic upsurge in drug use in Israel over the past few years, and the attempt to turn the sale of drugs into a legitimate "business" in Israel.

The intersecting vectors of Hurvitz's policy package—nonproductive arms industry, speculation, and dope economy—are already creating security consequences for Israel that are not being lost on Israeli planners. In sum, Hurvitz's credit-restriction policies against production and industry and his favoring of the "funny money" economy are leading to inward collapse of Israeli society.

This devolution is now being reflected in one of the most sensitive barometers watched by Israeli leaders: immigration to Israel.

According to figures released Dec. 15 by the Israeli Immigration Ministry, immigration dropped from 2,828 in November 1979, to less than 1,000 in November 1980. Reporting on these figures, the Dec. 16 *Baltimore Sun* noted that economists in Israel have been warning that "the worsening economy . . . and deteriorating social climate are driving Israelis abroad in growing numbers."

The crisis in immigration, the worst in 12 years, has more than symbolic importance.

For a significant number of long-term strategic planners in Israel, especially for those who believe in the inevitability or likelihood of further wars with the Arabs, the question of immigration ultimately bears upon the calculation of future manpower capabilities and comparative demographic factors relative to the Arab countries. For these planners, declining immigration is thus perceived, ultimately, as a security threat, all the more so at a time when they regard Israel's security as already negatively affected by the defense budget cuts detailed in Hurvitz's austerity regime.

The devolution of the economy, then, presents Israeli planners with only three possible options:

1) seek a peace agreement immediately, virtually on any terms;

2) seek to reverse the downward trend in Israel's economy, and therefore provide a stable, rational basis for dealing with the Arab countries through a dynamic of mutual development; and

3) seek the devolution of Arab economies. If the Arabs won't devolve voluntarily, but insist on rapid development in their own countries, this option presents Israeli planners with the choice of either fomenting internal civil strife and inter-Arab warfare, or going to war to knock out as much Arab infrastructure as possible.

It is in option three that the obvious dangers lie. Both internal civil strife and inter-Arab warfare have the ongoing potential of spilling over in an uncalculated way into other regions, potentially leading to the destabilization of the flow of oil, and creating superpower confrontation in the region.

Option three explains why Israel's economic problem is a cause for great alarm for the Reagan administration and for the international community at large: it places Israel directly on the course of strategic miscalculation.

Lawfully, some of Hurvitz's old friends in Israel are exactly those most inclined toward this option.

Hurvitz is head of the "Rafi" faction, which originated in a 1960s split from the Labour Party. One of his original Rafi allies was Gen. Moshe Dayan, most recently Israel's foreign minister. In an interview with the *Christian Science Monitor* Dec. 10, Dayan stated that Israel was no longer committed to the survival of Jordan's King Hussein, but was willing to see a Palestinian state emerge in Jordan. Behind these words lay Dayan's support for the destabilize-the-Arab-regimes strategy.

Dayan and Hurvitz are close to a clique of Israeli military planners allied to the Club of Rome, the elite club devoted to promoting Malthusian economics. For the Club of Rome allies in Israel, Israel's role is to oversee the maintenance of feudalism and backwardness in the Arab countries. This role is necessitated all the more because Israel itself is going through a process of austerity and devolution.

Progrowth alternative

There is anything but unanimity in Israel about the soundness of option three. As the social-economic crisis is exacerbated, leading scientists are favoring the second choice: rejecting Hurvitz's austerity and speculation policies, and encouraging a high-technology, nuclear energy-based economic growth policy.

Impulses in this policy direction have mostly come from Israel's scientific community.

In November of this year, the newly formed Israeli Academy of Sciences Committee for Projecting the State's Needs in Basic Research released a report on the state of physics research in Israel. The report expressed concern at the decline in physics research, and advised the strengthening of research in the future in the area of plasma physics in particular, in view of "its importance when applied to the solution of the world's energy problems."

Plasma physics research is key to the rapid development of commercially applicable thermonuclear fusion power. According to a Washington source with top-level contacts in Israel, a "school of thought is developing that Israel's survival into the next century depends on the use of fusion power for desalination purposes, to develop the country's water resources. Without such ambitious thinking, the future appears bleak."

The sense of the Israeli Academy of Sciences report was echoed in a mid-November speech by Gen. Amos Horev, the head of Israel's Technion University, an important training center for scientists and engineers. Horev warned that the training of scientists and engineers had "stagnated seriously" in Israel, leaving technological capabilities weakened in the area of defense. He warned that the stagnation "will seriously limit the country's aspirations and capabilities in the future."

Horev is now heading a special government commission to determine whether Israel should go ahead with previous plans to build two or more nuclear reactors in the country to supply future energy needs. The commission is due to issue its findings in April 1981.

To provide a positive national climate for the report, leading Israeli scientists have begun a pronuclear mobilization.

From Dec. 4 to 5, a conference of nuclear societies was held at Ben Gurion University. One of the conference keynoters was Shimon Yiftah, the head of the Israeli Nuclear Society. At a preconference briefing, Yiftah stated: "What makes this year's conference different is that we will be discussing practical options for how and where to build reactors in Israel. We feel the country is finally moving toward nuclear energy and that gives our deliberation new practical importance."

One of the main reasons cited for his optimism, Yiftah noted, was a likely change in policy toward the export of nuclear reactors on the part of the United States now that the Carter administration had been defeated. Yiftah reported that American nuclear scientists and the nuclear industry were "euphoric" over the Reagan victory. This change of American attitude, he stated, would probably mean a reversal of the Carter administration's refusal to supply Israel with two Westinghouse nuclear reactors that had been promised by the Nixon administration in the early 1970s.

The high-technology, nuclear energy direction for Israel is reportedly receiving support within Israel's financial community from a group centered around Ya'acor Levinson, the chairman of Bank Hapoalim, the banking arm of the Histadrut. Levinson, who is likely to be Israel's finance minister if the Labour Party assumes power in Israel's national elections next year, has written articles and given speeches advocating a prioritization of credit allocation for high-technology investments as the key to Israel's future.

According to an Israeli economic expert, "Levinson strongly disagrees with Hurvitz's restriction-of-credit policies. Levinson thinks this is stifling Israel's potentials for growth, and he thinks that economic growth is vital for the country's future. If he had power over economic policy, he would look to provide credit incentives for exports and for the high-technology sector, and to be more restrictive in other, service-related sectors."

Socialists urge talks with Red Brigades

by Mary Sonnenblick

To Italians, recent headlines must provoke a flash of "déjà vu": a highly placed official is kidnapped; his photo appears on front pages flanked by Red Brigades insignia; an anguished wife pleads publicly that the government not sacrifice the life of her husband; and the leader of the Socialist Party, Bettino Craxi, favors official negotiations with terrorists, "to save human lives."

The victim is Giovanni D'Urso, a magistrate working in a special antiterrorist unit of the Justice Ministry; he was kidnapped by the Red Brigades Dec. 12, 1980. But the kidnapping and its aftermath inevitably recall the kidnapping and later murder in 1978 of Aldo Moro, then president of the dominant Christian Democratic Party.

That was the most wrenching political event in Italy in recent memory. The political chaos opened by the national debate over whether the government should capitulate to the demands of the terrorists, was precisely calculated to prevent the very national unity that Moro had been in the process of building.

Now that debate, and the wounds it made in national political life, have been reopened. Just as in 1978, the battle is really over the future of Italy: whether terrorism will be allowed to usher in an era of austerity.

Former Bank of Italy governor, Guido Carli, Dec. 11, the day before the kidnapping took place, presented his predictions for Italy and the world to a select group of representatives of economic power in Italy. World trade is destined to collapse in 1981, said Carli; interest rates will shoot up "unforeseeably" in the next six months; growth rates will be reduced to zero or near it.

Based on this picture, Carli made the following prescriptions for Italy: strict control of inflation, and sacrifice, "on the Argentine model." Carli is recommending **a military government** to enforce an otherwise totally unworkable austerity policy for his country.

That is the policy of the European aristocracy, and it can only be implemented by destroying the possibility for cooperation between the healthy sectors of the two major political institutions in the country: the mass Catholic party, the Christian Democrats, and the second largest party in the country, the Communists.

That is where Bettino Craxi comes in.

Craxi has leveraged his Socialist Party (third largest with 12 percent of the vote) into a pivotal position as the Christian Democrats' major government ally, both on a local and national level, and aims at the prime ministership himself. His party's ideology is made-to-order for implementing the oligarchist plan: the Socialists are in favor of drug and pornography legalization, are vehemently against nuclear energy, and are very soft, officially, on terrorism. Such prominent Socialist leaders as leftist Giacomo Mancini have publicly defended known terrorists.

Fight among Christian Democrats

Just before the D'Urso kidnapping, Craxi's Socialists and their allies in the right wing of the Christian Democratic Party came under heavy attack from the Communists and *their* friends in the DC. At this point, right-wing Christian Industry Minister Toni Bisaglia has been forced to submit his resignation, and two Socialist undersecretaries are facing the same fate.

This offensive occurred at the same time as the Christian Democrats' National Council gave its qualified approval to cooperation with the Communists on a local level, for the first time in over a year. Toni Bisaglia bitterly opposes such cooperation and promotes alliances with the Socialists instead.

But Craxi's most influential friend in the Christian Democracy is Amintore Fanfani, the distinguished president of the Italian Senate. Fanfani actually campaigned to make Craxi prime minister during a 1979 government crisis. Amidst this fight came the Dec. 11 assassination of the mayor of the southern Italian village of Pagani.

Mayor Marcello Torre was a Christian Democrat who made his career in the party faction headed by Bernardo D'Arezzo, the regional boss of the party machine run from the top by Fanfani. The southern section of the party works through patronage and is rotten with corruption, interlocking on many levels with the Neopolitan mafia, the Camorra.

According to press accounts, Marcello Torre had made deals with the Camorra. After the Dec. 4 earthquake, Torre realized that if the underworld were allowed to pollute the earthquake reconstruction effort, not only would the reconstruction never take place, but the Camorra would use the huge influx of national treasury relief funds to make itself all-powerful.

Rome's *La Repubblica* says that just before he was murdered, Torre had quarreled with Fanfanian boss D'Arezzo. In an interview in the Communist Party daily *L'Unita,* he denounced the Camorra.

A spokesman for the Communist Party-dominated trade union federation, the CGIL, is quoted in *Repubblica* as saying: "We were counting on him. He was fighting a battle against the Camorra. . . ." Other press stories indicate that Torre had planned to take advantage of the National Council's green light and construct a regional government alliance with the Communists.

Abba Eban goes to London

The old-boy Arabists maneuver to cash in on hoped-for Reagan blunders.

Last week, an important Israeli visitor to London went almost unnoticed except for a small item in the *Jerusalem Post*. Abba Eban, the former Israeli foreign minister and the man expected to take up that post again should Labour Party leader Shimon Peres win next year's elections, spent a day meeting with a prestigious group of London's so-called "Arabists," led by Sir Harold Beeley.

It was, in a sense, a quiet reunion of an "old boys network." Back during World War II, when Eban was a captain in the British army with close ties to British and Zionist intelligence, he was a close collaborator of the old British Arabist mafia. In fact, Eban describes himself as the godfather of the Middle East Center for Arabic Studies (MECAS), which was founded in 1944 by the Royal Institute for International Affairs as the headquarters of the British intelligence service in the Middle East.

At that time, Harold Beeley was the private secretary of Queen Elizabeth. Since then he has served as British ambassador in Cairo, and today he chairs the World Festival of Islam Trust, along with United Arab Emirates Ambassador Mohammed al-Tajir in London.

What were Eban and Beeley talking about?

According to London sources, the Eban-Beeley reunion was part of a broader British attempt to capitalize on the mistakes London hopes the incoming Reagan administration will make in the Middle East.

The British strategy is to present London's Middle East policy as more accommodating to the Arab position than is that of the United States. In a recent letter to Parliament, British Foreign Secretary Lord Carrington stated his agreement with the positions laid out in the report of British Liberal Party leader David Steele, who recommended, after a tour of the Middle East, that only the Palestine Liberation Organization could represent the Palestinians.

The British position is duplicitous, since during a recent series of meetings of the European Community, the British have consistently sabotaged French efforts to present more forthright positions opposing the Camp David strategy sponsored by Washington.

Meanwhile, as Eban was meeting with Beeley and Ian Gilmour of the Foreign Office, Ambassador John Graham of the Foreign Office was in Beirut meeting with Yasser Arafat of the PLO.

The policy implications of the crisscrossing Middle East diplomacy ought to be clear.

Eban, who represents the most anglophile of the Israeli leadership, and Beeley, Graham, and the old Oxford-Cambridge Arabist establishment whose patron is Sir John Bagot Glubb Pasha are seeking to make an under-the-table deal with the network of the old Muslim Brotherhood in the Arab world.

By approaching Arafat, the London Arabists are providing a bit of protective coloration to themselves. Their real objective is to isolate Iraqi President Saddam Hussein, Crown Prince Fahd of Saudi Arabia, and their allies in the Arab world. Saddam Hussein and Fahd, collaborating closely, have forged an axis in the Arab world committed to a long-term policy of industrialization and economic development. Both Britain and many Israelis are fiercely opposed to this strategy on the part of Iraq and Saudi Arabia.

Eban and his British Secret Intelligence Service colleagues are consolidating their links to the Muslim Brotherhood network from this standpoint. In Saudi Arabia, their chief contact is Prince Abdullah ibn Abdel Aziz. Prince Abdullah is commander of the Saudi National Guard, and a bitter opponent of Prince Fahd's modernization policies.

Tactically, Eban and the British hope to make an offer to Jordan's King Hussein that will break him away from his current alliance with Fahd and Iraq's Saddam Hussein, by bringing him into a "gentleman's agreement" with Israel—under a new Labour Party government whose foreign minister will be Abba Eban.

In other words, the British and their Israeli allies, like Eban, will offer to settle the Palestinian question—but at the price of eliminating the Arab world's pro-modernization faction and strengthening the hegemony of the Islamic reactionary tradition embodied by Saudi Prince Abdullah.

Heavy fire on the southern border

The biggest army maneuvers since the revolution were intended to make a point in Washington.

The Mexican army and air force mobilized 45,000 troops to fight off an invading army which entered Mexico from Guatemala during the first two weeks of December. The Mexican military units were placed on "red alert" and rapidly transported, along with modern military equipment, into the oil-rich state of Chiapas. Within a few hours, the invaders were contained, and only days were needed to force them to retreat from Mexican soil.

The battle, in reality, was part of the "Cactus-Chicoasén 80" winter maneuvers of the Mexican army. The Mexican government ran the war maneuvers to show the world its determination and ability to defend Mexico's oil fields, located scarcely 100 miles from the border with Guatemala.

As the exercises were in progress, an American expert in the seizure of oil fields by military force—Clyde Mark of the Foreign Affairs and National Defense Division of the U.S. Library of Congress Research Service—was telling a Mexico City press conference that the U.S. might have to occupy Mexico's oil fields. "If the U.S. invades El Salvador, we could suffer an oil supply cutoff from Mexico," Mark explained. "If the U.S. is unable to seize Middle East oil fields, why not take others, such as Venezuela, Canada, and Mexico? The problem is to project a surprise force, which doesn't harm the wells and which can rebuff the Mexican army and possible saboteurs."

Mexico's maneuvers were the country's biggest military movement since the 1910 Revolution. Although Mexico's army has been known for its small size and relatively poor firepower, in recent years its physical and strategic readiness has vastly improved, through the purchase and production of modern arms. For example, Mexico now makes the G-3 submachine gun on license from West Germany. During the maneuvers, the Mexicans also displayed small land-land missiles, tanks, and Lockheed T-33 light jets.

Significantly, President López Portillo personally oversaw the maneuvers for a day, in his capacity as commander-in-chief of the Armed Forces. Mexican TV showed him in a kakhi uniform, studded with a general's five stars. The Mexican president effusively praised Defense Minister Félix Galván to the press: "I am deeply proud of what my General Galván is doing. He has the army in better shape than ever before. With a small budget, which we are now increasing, he has worked veritable miracles."

Observers here interpret López Portillo's presence and his statements as ratifying the growing importance of the Mexican army in the country's affairs. A month ago, López Portillo publicly roasted Juan Rulfo, winner of the national literary prize and one of Mexico's most reknowned intellectuals, for insulting the army. Said López Portillo: "As supreme commander of the Mexican Armed Forces, as president of the Republic, as a Mexican citizen, I say that I am proud of our army. I protest against all slanders and facile defamation. . . . Not one soldier of the republic is corrupt. They are all loyal servants of the institutions."

Most analysts viewed López Portillo's remarks as extreme to the point of bringing their literal veracity into doubt—but the Mexican president did make his point.

Perhaps most impressed were the eight Guatemalan generals who were invited by General Galván to personally observe the maneuvers. Galván explained that the President himself had ordered the exercises to be held on the Guatemalan border, to stamp out persistent reports in *Business Week* and other publications that Mexico was providing a "sanctuary" for Guatemalan leftist guerrillas. Mexico has repeatedly reassured Guatemala that this is not the case, and that on the contrary, Mexico wants to maintain friendly relations on the basis of economic cooperation. On this occasion, Mexican authorities gave the Guatemalan generals a helicopter tour of almost 1,000 kilometers of border area. In Galván's own words, the Guatemalans "descended in a location of their choosing, and were able to verify that there weren't even traces of the supposed guerrillas. . . ."

A reliable source with security ties in Mexico City told my bureau that the best way of describing the Guatemalan military chiefs' response to the maneuvers, is that they were "psyched out" by Mexico's show of force.

International Intelligence

Ben Bella demands 'natural development'

Former Algerian President Ahmed Ben Bella, who was recently released from house arrest by the current Algerian government, has called for the Arab countries to break with "Western ways" and to desist from basing their economies on oil production.

"Can't we find a policy that is our own and that depends on our agriculture?" he asked. Oil development, Ben Bella asserted, creates "barriers to natural development." The former president, an open supporter of Iran's Ayatollah Khomeini, made his comments in an interview with the Lebanese journal *As-Safir,* which is close to Libya's Colonel Muammar Qaddafi.

Another coup for Turkey?

Another coup may be in the works for Turkey. According to intelligence sources, the Turkish generals who seized control of the government Sept. 12 are beginning to balk at continued demands of the International Monetary Fund and related agencies for the complete dismantling of Turkey's large state-sector industrial enterprises. The generals, writes the London *Guardian* on Dec. 15, are "hankering after a return to protection, intervention and the state sponsorship of ailing industries."

The article suggests that if the generals don't cooperate, there "could yet erupt a coup within a coup, removing the moderate head of state, General Evren and his deputy, General Saltik." According to the *Guardian*, the "ruling junta is badly divided." The likely coup-makers would be a clique of right-wing officers who are pressuring Evren to release their mentor, the self-professed neo-Nazi Col. Alparslan Turkes, now imprisoned.

Another issue is the generals' refusal to cooperate fully with NATO. A recent government-approved editorial in the daily *Milliyet* stressed Turkey's good relations with both the East and the West, singling out its economic accords with Moscow "as a safety valve in providing relief during the economic crisis we have experienced in recent years. . . . No one would be opposed to accelerating the Turkish-Soviet dialogue, particularly at this time when the economy is the most effective factor in preserving international peace." Recently, a top-level Soviet delegation was in Ankara to work out a new round of cooperative economic arrangements.

IEA blackmails oil consumers

One week before the Dec. 15 OPEC meeting, the 21 nations of the International Energy Agency met in Paris, where a decision was taken to cut oil imports by 10 percent in the first quarter of 1981—on top of the 25 percent cut in imports recorded by the industrial nations over the last 12 months. According to accounts of secret diplomacy in Paris before the IEA meeting, OPEC and U.S. Energy Secretary Charles Duncan, who chaired the IEA meeting, coordinated a strategy to force the cut.

The Spanish news agency EFE reports that Venezuelan oil minister Humberto Calderon Berti held a meeting with Duncan, after conferring with other oil ministers including Algeria's and Ecuador's. Sources report than an agreement was reached whereby OPEC and the IEA would jointly force the imports cuts through a campaign of threats by OPEC that began that week with the Ecuadorian oil minister, René Ortiz. Ortiz warned the consuming nations that if they did not agree to reduce their massive stockpiles, OPEC would immediately impose a large oil-price hike.

Oil industry sources concur that such a move is most threatening to West Germany and Japan, who now possess large oil stocks as a hedge against another oil crisis. Both countries support massive industrial economies and are heavily dependent on imported oil.

Following the OPEC meeting his week, Saudi Oil Minister Yamani, in an interview with *Die Zeit,* stated unequivocally that unless stocks were drawn down, OPEC would raise its price to $50 a barrel at the next meeting in May 1981.

China tries to invent the apeman

Chinese scientists in 1967 impregnated a chimpanzee with human sperm in an attempt to produce a half-ape, half-man able to do work, according to the daily *Wen Hui-bao*. The scientist in charge reportedly said the offspring would have been creative enough to learn simple words and could have been a source of organ transplants, however the pregnant chimp lost the offspring when Red Guards ransacked the scientists' laboratory during China's Cultural Revolution.

Another experiment destroyed was the exchange of heads between two dogs. The enterprise was aimed at the problem, "If, due to illness or other reasons, a person loses his body, could his head be transplanted onto the body of a humanoid so that he could live and make use of his intelligence?"

Salvadorean government shakeup boosts Duarte

A government shuffle at the top in El Salvador last weekend left Christian Democrat José Napoleon Duarte firmly in control. Duarte was named president, with the Commander of Chief of the Armed Forces, Col. Jaime Guttierrez assuming the job of vice-president, replacing the five-man junta which had run the country since October 1979.

The government reorganization followed immediately upon a four-day visit to El Salvador by a Carter administration "fact-finding" mission. The mission, led by Kissinger associate William Dill Rogers and Assistant Secretary of State William Bowdler, was officially constituted to investigate charges that government security forces had been involved in the assassination of four American women, three of them nuns, by right-wing death squads the previous week.

Members of the mission, however, carried out a much broader task, holding high-profile meetings with many of the country's top religious, business and political leaders during their stay. In a brief statement to the press upon their return, the mission stressed the urgency of a "government restructuring" and the reestablishment of command structures within the Army.

Within three days, Duarte announced the government shuffle.

Soviets aid Libyan intervention into Chad

Because of a massive airlift of materiel and troops from Libya into neighboring Chad since mid-October, the Libyan-backed forces in the Chad civil war have gained the upper hand after a week of heavy fighting in Chad's capital, Ndjamena, which began Dec. 8.

The equipment transported as well as the aircraft used were in large part supplied by the Soviets to Libya. If the Soviet-backed Libyans successfully consolidate their victory, Chad will become a springboard for spreading similar tribal and religious conflicts throughout central and western Africa, targeting Cameroon, Nigeria, and states in the Sahel region or bordering on the Sahel.

Coming on top of the drought already afflicting much of the region, hundreds of thousands of additional refugees will be created, people that will be left to die as is already happening in eastern Africa.

When the French government, after not reacting publicly to the Libyan buildup in Chad, expressed disatisfaction with the Libyan intervention, TASS responded by denouncing "efforts by imperialist circles to create conditions for a direct intervention into Chad."

Palme Commission sets arms control agenda

The Palme Commission on Arms Control and Disarmament Issues met quietly in Vienna last week, ostensibly to set an agenda for its 1981 work.

The commission, headed by top Eurosocialist Olof Palme of Sweden, and inluding former U.S. Secretary of State Cyrus Vance, Leslie Gelb of the Carnegie Endowment, former British Foreign Secretary David Owen, and Georgi Arbatov, the head of the Soviet Imemo think tank, sees itself as a "permanently open channel" between East and West, according to one source. "This channel will stay open, no matter what happens between the Soviet and U.S. governments about such things as Poland," one commission member stated.

Commission members say that they will become the principal forum for discussion of the renovation of the SALT process. "We can air things, radical ideas, that the negotiators won't dare touch," said a commission adviser.

The meeting followed a series of private informal gatherings two weeks ago in Washington, D.C. between Arbatov, Vance, Gelb, and Palme on the periphery of a conference on "Eurosocialism and America."

Six full commission meetings with 20 smaller meetings, are planned over 1981. Each full meeting will take up an "immediate issue" and longer-term problem. The next meeting, scheduled for February, will reportedly deal with the SALT process itself and the longer-term "problem" of technology control.

Commission members clearly regard themselves as an adversary of the incoming Reagan administration. Reportedly, the meeting deliberately decided to withhold making any statement about SALT until the Reagan administration commits itself to a position. "Then we will have something to attack," said a source.

Briefly

- **JACQUES WAHL,** an official representative of the French government, concluded a week-long trip to the U.S. on Dec. 17 to meet with George Bush and Reagan advisers including Ed Meese, James Baker, Richard Allen, and Fred Iklé. According to *Le Figaro*, Wahl termed it urgent for the President-elect to personally contact his European allies as soon as possible.

- **LYNDON LAROUCHE, JR.** chairman of the advisory board of the National Democratic Policy Committee, has presented policy proposals on Mexican-American relations to both Ronald Reagan and Mexican President José López Portillo, who will meet in Ciudad Juarez Jan. 5. The proposals center on oil-for-technology accords.

- **THE SOVIET** Communist Party has reached an agreement with the Vatican that there will be no Warsaw Pact military action against Poland so long as the Church keeps the Solidarity union movement in check, according to the Dec. 16 issue of the Italian daily *La Stampa.*

- **THE BROCKDORF** nuclear power station in the north German state of Schleswig-Holstein was the target of a Dec. 16 regional Social Democratic Party resolution, which has also sent a delegation to Bonn to lobby against construction of the plant. Environmentalists are organizing a demonstration of 10,000 at the site.

- **MUSLIM** Brotherhood activists have begun to organize students at two universities on the West Bank, An-Najah and Bir-Zeit, the Jerusalem Domestic Service reported Dec. 15.

- **LEFTIST** guerrillas in El Salvador have announced preparations for a "final offensive" against the government to begin shortly.

Senators join the anti-Volcker revolt

by Barbara Dreyfuss

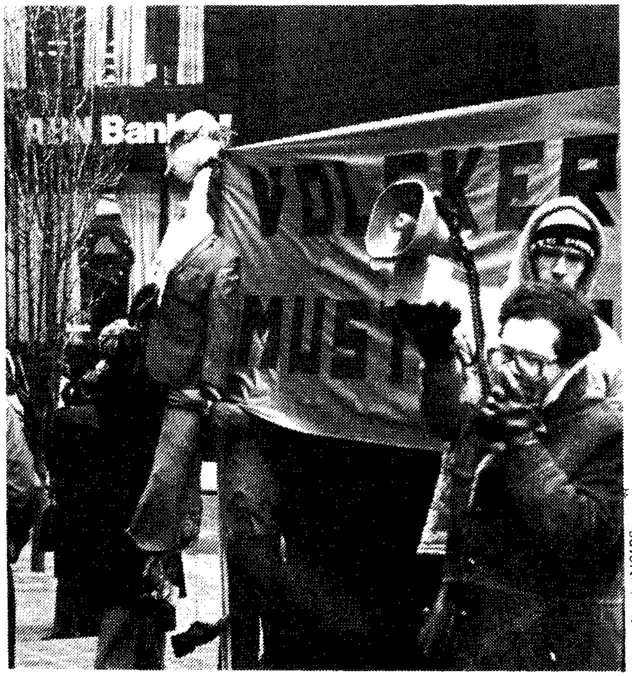
Declaring that the Federal Reserve's interest rate policy is "shoving us back into a recession," Sen. James Sasser, Democrat of Tennessee, introduced a resolution into the U.S. Senate Dec. 13 directing the Federal Reserve to lower interest rates. The resolution further directs the appropriate Senate committees to investigate "the steps that are required to provide a more stable and growth-oriented monetary system that ensures adequate credit supply to hard-pressed economic sectors while reducing the speculative and intrinsically inflationary pressures which now characterize the financial sector." The resolution was cosponsored by 10 other Democratic Senators representing states from the industrial heartland of Ohio and Michigan to the farmland states like Nebraska. The senators are: Randolph (W. Va.), Bumpers (Ark.), Exon (Neb.), Melcher (Mont.), Boren (Okla.), Huddleston (Ky.), Ford (Ky.), Baucus (Mont.), Levin (Mich.), Metzenbaum (Ohio).

Over the past two weeks a number of senators and congressmen, including House Majority leader Jim Wright (D-Tex.) have made individual statements criticizing the Federal Reserve's policies, and even demanding the ouster of Federal Reserve Chairman Paul Volcker. The Senate resolution is the first recent effort to apply the pressure of the entire Senate against the Fed. "The responsibility for sound monetary policy rests with the Congress," declared Senator Sasser. "The American people do not expect us to sit idly by while our economy falters and stumbles."

With Congress adjourning only three days after they introduced the resolution, the 11 Senators did not in fact anticipate action from the lame-duck session. They decided to act now, however, so that the resolution and the issue of the Federal Reserve's policies will be the first agenda item when the new Congress convenes Jan. 5, 1981. "We did this because it gives us a talking point for the new Congress," declared an aide to one senator. "This can't keep going on."

The Senate warnings were echoed from the House this week, when Rep. Henry Nowak (D-N.Y.), chairman of the Small Business Subcommittee on Access to Equity Capital and Business Opportunities, declared Dec. 11 that "soaring interest rates are once again stifling the creativity and lifeblood of our small business community." Nowak warned in a letter to Paul Volcker that if the prime interest-rate hikes, which reached an all-time high Dec. 16 of 21 percent, continued it "will stifle small business, injuring that sector of our economy which creates jobs and develops the innovations we most desperately need for an increase in productivity today." He demanded that the Federal Reserve immediately act to lower the cost of money for small business, saying that hearings, which his subcommittee held earlier this year "reinforced our belief that small firms bear the brunt of tight-money policies." Nowak's subcommittee had reported that individual business bankruptcies rose "an incredible 88 percent" during the 1980 fiscal year because of high interest rates!

Sen. Jake Garn (R-Utah), incoming chairman of the Senate Banking Committee, in early December denounced the Federal Reserve's high interest-rate policy for "killing the automobile industry right now." Garn



Stuart Lewis/NSIPS

EIR *Economics Editor David Goldman (r) at a Dec. 19 New York rally.*

also told the *Journal of Commerce* Dec. 12 that the Fed policy is "going to put some really very substantial home builders out of business."

Fed chief Volcker also came under severe attack from Sen. David Boren (D-Okla.), who said that a continuation of the Volcker high interest-rate policy "amounts to economic insanity."

These were the first recent public attacks on the Fed chief from the Senate. The first week in December, over half a dozen Congressmen, including House Majority Leader Jim Wright (D-Tex.) and Chief Deputy Whip Bill Alexander (D-Ark.), went on record against the Volcker policy.

Grassroots pressure

Congressmen and senators have been responding to tremendous rage from their constituents over the staggering interest rates. With the prime rate now at its highest ever, 21 percent, and still climbing, farmers have been unable to meet payments, businessmen have been forced into bankruptcy, nobody can build or buy houses. "We are being inundated with calls," declared at aide to Sen. Wendell Ford (R-Ky.), one of the cosponsors of the resolution. "They view the high interest rates as causing inflation. People are calling who want to buy or to build homes. They are farmers. We had letters from bankers and people on fixed incomes. One shopping-center developer called and said a company was going to open in Kentucky but couldn't because of the interest rates and that this cost our state 40,000 to 50,000 jobs."

Former Democratic presidential candidate Lyndon LaRouche, now chairman of the advisory board of the National Democratic Policy Committee, has called for a national demonstration of 10,000 strong in Washington, D.C. on Jan. 27 to force Congress and the new Reagan administration to oust Paul Volcker. The rally will demand lower interest rates and credit for industrial and agricultural investment. The policy committee is organizing all its networks for the rally and plans initial rallies Jan. 13-14 at a number of regional Federal Reserve buildings. LaRaouche said the rallies' slogan should be "Hang Volcker from the Sour Apple Tree," a reference to the famous Civil War slogan against the traitor Jefferson Davis, the president of the Confederacy who openly sought the destruction of the U.S. as a unified, industrial nation.

Over the past weekend over 200 leaders of constituency groups, representing several thousand farmers, unionists, and businessmen, met in Los Angeles, Baltimore, and Detroit to hear NDPC leaders, trade union leaders, and farm leaders discuss the economic crisis caused by the Federal Reserve chairman's policies and to plan action for the national rally. Telegrams were sent to elected officials and union leaders supporting demonstrations against Volcker.

Farmers denounce Volcker

Constituency pressure to reverse the high interest rates has been building since the American electorate overwhelmingly rejected the economic policies of the Fed and the Carter administration in the Nov. 4 election. Perhaps the most vocal have been American farmers, who, already staggering under enormous debt have been going bankrupt at frightening rates. Over the weekend of Dec. 13-14, 2,000 delegates of the American Agriculture Movement, meeting in Denver, voted to oust Paul Volcker from his job. Three days earlier, AAM President Marvin Meek had declared, "It is evident that the present agricultural policies of this nation are a disaster when the mere presence of Russian troops along the Polish border, combined with our asinine Federal Reserve policy of outrageous interest rates, can totally destroy commodity markets and agricultural prices. This chaotic situation is a direct result of Carter's agricultural and economic policies, combined with the high interest policies of the Federal Reserve. Therefore the American Agriculture Movement is demanding the immediate resignation of Federal Reserve Chairman Paul Volcker."

Earlier in the week the Alabama Farm Bureau also voted up a resolution against Volcker. In demanding the firing of the Fed chief, the President of the Alabama Farm Bureau Goodwin Myrick declared, "If Volcker is not removed he'll bankrupt this country. Alabama farmers shudder to think of beginning this next crop year with interest rates at 19 percent or more. A combination of high production costs and rising interest rates is disastrous for farmers."

Almost simultaneously the North Carolina Farm Bureau demanded that "the Federal Reserve System be brought more into line with the wishes and thinking of the U.S. Congress."

The Maryland Farm Bureau meeting during the same time passed a demand for lower interest rates after hearing an AAM spokesman address their convention.

Labor opposes Volcker

Labor union leaders have added their voice to that of farmers in demanding that Volcker be ousted. Most outspoken so far have been leaders of the United Autoworkers, which already has one-third of its members laid off thanks to plummeting auto sales caused by the high interest rates. Meeting in Milwaukee, Wisconsin Dec. 11, leaders of the UAW Subcouncil 9 endorsed a three-part motion to the union's international executive in Detroit. The statement demanded that the union call for Volcker's immediate resignation; that the union undertake a one-day shutdown of all UAW-organized production lines and shops to protest Volcker's policies; and that the union organize a picket line against the Fed chairman outside the Federal Reserve building in Washington, D.C. The measure was proposed by John McCarrell, president of the United Autoworkers local 544 in West Mifflin, Pa. "The working man is fed up. . . . Everyone is blamed for recession and inflation when the real problem is the high interest rates set by Paul Volcker," McCarrell told the Pittsburgh press. Telegrams of support for McCarrell's resolution have come from numerous United Steelworkers, United Autoworkers, and Oil, Atomic and Chemical Workers officials in Pennsylvania. McCarrell also received a telegram of support for his resolution from several trade-union executives and a former congressman from New Jersey. "Such action is long overdue . . . before industries in America die," declared the telegram signed by former Rep. Henry Helstocki, James Altemus, vice-president UAW local 300, Ellsworth Beck, president United Steelworkers local 8195, Frank Vittorio, secretary-treasurer Ironmolders local 88, and James Kostibus, secretary-treasurer, Locomotive Engineers Division 5. They also endorsed the Federal Reserve Reform Act bill proposed by Lyndon LaRouche to ensure that the Fed issues adequate credit for real industrial and agricultural expansion.

California labor officials have also been active against the Federal Reserve, with three executives, including the president of a Painters District Council, signing a resolution against the Fed chairman. In Louisiana, representatives of the AFL-CIO and the AAM there convened a conference on "Parity, Protection, and Policy." The meeting endorsed a resolution for lower interest rates and "formation of a labor/farm committee to define policy for the Reagan administration."

Local legislative bodies act

It is this outcry against the tight-money policies of the Federal Reserve which is impelling congressmen to speak out against the Federal Reserve, and also causing important action by local legislative bodies. During the second week in December, the New Jersey House of Representatives passed a resolution to the U.S. Congress demanding the ouster of the Fed chairman. The New Jersey Senate is expected to follow suit in January. Also in New Jersey, the Newark City Council voted 9 to 1 to back a demand for lower interest rates. One day following the Los Angeles NDPC meeting, California State Sen. Bruce Young, vice-chairman of the Finance Committee, introduced a resolution very similar to the New Jersey one, denouncing Paul Volcker. Similar resolutions are expected to be introduced into state legislatures all over the country soon.

Senator James Sasser motivates the resolution

"Since October 1979 the Federal Reserve Board has embarked on a misguided crusade to end inflation by relying on a tight-money policy. And while the Federal Reserve Board should follow monetary policies that can moderate inflation, the Federal Reserve Board must understand that inflation cannot be halted through monetary policy alone. . . .

"In the homebuilding industry the devastation has been incredible. . . . This year because of soaring interest rates, we may build only 1.2 million units—a shortfall of 1.1 million units. . . .

"This year over 2,100 automobile dealerships will go out of business, a rate nearly triple that for the period from 1975 through 1978. . . .

"And through all this have we reduced inflation? Have we slowed down the demand for credit? No, we have not.

"Mr. President we simply cannot continue to follow the Federal Reserve Board's high interest polices. We must not be cowed or intimidated by those who say that the Fed can bring down inflation if only we can leave it alone. The Fed's interest-rate policies are not working and we must recognize that fact and act accordingly.

"I, for one, do not plan to stand idly by during this interest-rate crisis.

"Consequently, I am today submitting the resolution which is cosponsored by Senators Randolph (W.Va.), Bumpers (Ark.), Exon (Neb.), Melcher (Mont.), Boren (Okla.), Huddleston (Ky.), Ford (Ky.), Baucus (Mont.), Levin (Mich.), and Metzenbaum (Ohio).

"In summary this resolution would:

"Direct the Federal Reserve Board to take appropriate actions to hold down the prime rate and to reduce interest rates as soon as possible;

"Direct the Federal Reserve Board to abandon its present approach of managing the money supply by means of meeting general monetary aggregate targets as announced in October 1979, and to restore traditional financial constraints such as federal interest-rate targets, and stronger reserve and margin requirements on borrowing;

"Direct the Congress to have the Federal Reserve Board through its Board of Governors rather than the Open Market Committee, set national monetary policy;

"Further direct the Congress to broaden the membership of the Federal Reserve Board of Governors in order to include representation of a wider spectrum of the economic community and;

"Finally, to direct the Senate, through its established committees to undertake a thorough investigation of the steps that are required to provide a more stable and growth-oriented monetary system that ensures adequate credit supply to hard-pressed economic sectors while reducing the speculative and intrinsically inflationary pressures which now characterize the financial sector."

AFL-CIO's Lane Kirkland strikes a new posture

AFL-CIO President Lane Kirkland surprised some people Dec. 10 when he suddenly decided to scrap a tough cold-war speech on the Polish crisis. Instead Kirkland told a Jewish Labor Committee audience in New York City that the Federal Reserve's high interest-rate policy "has destroyed more homes over the past than were destroyed in the firebombing raids over Tokyo during World War II."

Earlier that day, Kirkland had delivered a similar uncharacteristic attack on the Federal Reserve in testimony before the Joint Economic Committee of Congress: "I cannot think of a single thing more destructive than raising interest rates. It is cheap capital and cheap energy that have made this country great. . . . Reindustrialization cannot be consistent with tight money."

The AFL-CIO president's remarks mimic the policy declarations made by Lyndon H. LaRouche, Jr., the former Democratic presidential candidate and current chairman of the advisory board of the National Democratic Policy Committee. The decision to have Kirkland ape LaRouche, sources report, was made at the Dec. 5-7 meeting of "Eurosocialists" in Washington, D.C. The leaders of the Social Democracy and their American operatives like Lane Kirkland, who was not himself present at the event, concluded that they must make some attempt to coopt the mass uprising against Federal Reserve Chairman Paul Volcker's policies set in motion by LaRouche and his allies among members of both parties.

In addition, avid support for labor-intensive projects such as the synthetic fuels boondoggle were prominent in both Kirkland speeches.

AFL-CIO sources say privately that Kirkland has himself been meeting with Volcker to plan a post-collapse economic policy. Both Kirkland and Volcker are reportedly in agreement that rigid credit control should be slapped on the economy, that the Federal Reserve should hike its discount rate to further choke off lending and that an equality-of-sacrifice "incomes policy" be used to control wages and prices.

"Lane does not think that Volcker is the problem," said one source. "The real problem is that there is no consensus for credit controls. This will take time to build."

The AFL-CIO leadership will therefore make a great deal of noise about interest rates—as Kirkland did this week. But an AFL-CIO spokesman close to Kirkland said that "the federation will not act on anything concrete until the situation gets much worse."

"By late spring," he commented, "there will be ten million unemployed. At that point the crisis will hit everybody in the face, and we will get our controls."

Kirkland and his social-democratic friends plan to blame the collapse not on Volcker, but on Ronald Reagan. "If Reagan doesn't go along with our program," said a Kirkland aide, "he will get hit from all sides. We will box him in."

The AFL-CIO president reportedly feels "at ease" with the Federal Reserve chairman. They know each other from their common membership on such bodies as the Trilateral Commission and the New York Council on Foreign Relations. In his speeches attacking the Federal Reserve, Lane Kirkland never mentioned Paul Volcker's name.

Why the Reagan cabinet is still such an enigma

by Nancy Spannaus, Contributing Editor

Despite the appointment of 20 members of the incoming Reagan cabinet, the character of the cabinet still remains an enigma. For unlike the Nixon and Ford administrations, the Reagan administration has given every indication that it will function with a strong executive hand over individual cabinet areas of specialization.

The structure for implementing such centralized policy direction has already been put into place. In particular, the appointment, the appointment of Edwin Meese III as counselor to the President, and reconstitution of Reagan's long-term personal staff within the White House has signaled loud and clear that key decisions will be made in the Oval Office. The press has extensively commented on the downgrading of the National Security Adviser; but similarly the initial statements of the cabinet officers have indicated that they expect to be implementing Reagan's policies rather than making them themselves.

What makes the cabinet still an enigma is that the *content* of the policies which this strong executive will carry out has not yet been determined.

The central policy issue is of course the nearly out-of-control financial and economic crisis being fed by the high interest-rate policies of Federal Reserve Board Chairman Paul Adolph Volcker. If the core Reagan group does not decide to stop Volcker and his policies in their tracks, the Federal Reserve will have succeeded in setting the agenda for the new cabinet regardless of their intentions. Every key area of domestic and foreign policy is now being determined by the deliberate ratcheting of the United States into a depression.

The cabinet nominees Reagan has announced are by no means the optimal choices for implementing an anti-Volcker policy, and launching a 180-degree shift of policy toward reindustrialization. While Reagan avoided the option of returning certain "superstars" from the Nixon administraton to power—including such bald allies of Volcker such as William Simon and Walter Wriston—it was to be expected that Reagan would pay off his political debts to the Eastern Establishment group that supported his election effort. Overall, the initial cabinet nominees fall within the range of "big shots" from prominent American institutions that are dominated by the Council on Foreign Relations crowd. This is especially obvious with such nominees as Council on Foreign Relations member William Casey for head of the Central Intelligence Agency, Trilateral Commission member Caspar W. Weinberger for Secretary of Defense, and former NATO commander Alexander Haig for Secretary of State.

But we must issue a strong caveat against the temptation to judge even these cabinet members according to their past track records.

The case of Alexander Haig

Take the case of Alexander Haig, for example. Haig, like Henry Kissinger, is a longtime protégé of Pentagon official Fritz Kraemer, who until his recent retirement operated as an unobtrusive representative of the British Special Operations Executive and European black oligarchy within the U.S. government hierarchy. Haig's unprecedentedly meteoric rise to four-star general without ever holding a major field command was the direct result of his sponsorship by Kraemer, Cyrus Vance, and Kraemer's superiors in the Jesuit order and British intelligence. But unlike Henry Kissinger, Haig is not limited in where he can be deployed by a colossal bag of neurosis and ego. In true Jesuit tradition, he is an "organization" man. It is likely that, no matter what his personal views or previous activities on certain subjects, he will do what he is told.

This judgment has been supported by rumors, relayed through the press, on the policy which the Reagan White House is taking toward the undersecretary, and even staff, positions in the various cabinet departments. As the *Washington Post* reported on Dec. 18, "according to several top transition officials, each cabinet nominee will be given lists of from three to eight names recommended for appointmment to each subcabinet post. If the cabinet secretaries prefer someone who is not on the list, they will be required to go back to White House officials—presumably counselor Edwin Meese III and James A. Baker III [the chief of staff]—for approval."

Some sources have even been reporting that the Reagan executive is planning to purge a full 200 staffers from the State Department, and then make sure that Haig is surrounded by traditional Reagan appointees all the way down the line. Even Haig himself seems to have qualms about this, as reflected in a Dec. 18 op-ed in the *Baltimore Sun* lauding the "independence of spirit and judgment" that the President receives from a cabinet official who has "enough free rein to run his or her department effectively."

In fact, the functioning of any cabinet department is totally dependent upon the relationship between the secretary and his key undersecretaries, at least. It is known, for example, that Nixon's Attorney General John Mitchell never consolidated control over the Justice Department, which was still controlled by Kennedy loyalists. Other historical examples abound.

To conclude a judgment on the Reagan cabinet, therefore, it is indispensable to assess who the key undersecretaries are going to be in all areas.

One of Reagan's appointees breaks ranks totally with the recent trend toward establishing a government bureaucracy totally "independent" of responsibility to national constituency groupings: Richard Schweicker, the former Republican senator from Pennsylvania who ran for the Republican vice-presidential nomination with Reagan in 1976 and has been nominated for the Department of Health and Human Services. The fact that he is a politician makes him more likely to respond to the clamor of constituency pressure particularly on the economic issues.

In the final analysis, how *political* the Reagan administration dares to be will determine its stand on the Volcker issue, and thus its ability to govern. Vigorous efforts are already under way from the *Washington Post* and other liberal Democratic outposts to tie up all the cabinet nominations in a Nixonesque process of charges of special interests, corruption, and so forth. Such a process would paralyze the incoming administration, and deny it the ability to take aggressive action on the nation's crucial problems. That is its undisguised intent.

The effective solution to this problem, as well as to determining what this cabinet will do, lies squarely with Reagan's willingness to directly mobilize the nation against the Volcker measures of depression. The political constituencies who deserted Carter and the Democratic Party in record numbers because of the disastrous policies of Volcker on Nov. 4, want to see the government once more responsible to their needs on the economic issue above all.

Until the Volcker issue is resolved in the Reagan White House, the cabinet will remain an interesting but secondary enigma. In the next 30 days it is the Volcker fight that will set the agenda.

'Good news from Israel'

by Warren Hamerman

Mr. Hamerman, chairman of the National Democratic Policy Committee, released the following statement on Dec. 19.

I enthusiastically welcome yesterday's development in Israel, where Labour Party Chairman Shimon Peres overwhelmingly won the right to oppose Prime Minister Menachem Begin in next year's elections. My colleague Lyndon H. LaRouche, Jr. and I have worked for the last half-decade to support a proper "Israeli nationalist" policy. On Dec. 18, Peres's postelection statement to make Israel "great again" through "focus on developing a highly sophisticated, science-based industry to pull Israel out of its economic difficulties" embodies the germ of appropriate Israeli policy.

Potentially, Israel can now become the key to achieving an overall Middle East peace package. This potential has been brought to the fore by the recent stunning rejection of the Carter-Brzezinski policy of creating an "Arc of Crisis" from the Middle East through Asia. In fact, a not insignificant factor in electing Ronald Reagan President was the strong backing he received from normally Democratic Jewish-Americans.

The problem with Israeli policy over the past years has not been caused by Menachem Begin. It was caused from Washington, through the outrageous policies of Carter and Brzezinski. The United States backed the worst possible combination in the Arab world: wild man Qaddafi (remember Billygate?), the lunatic Khomeini, and bully Assad of Syria. This policy was packaged with special touches for Carter and Brzezinski by the British old hands who have been fighting against French and German influence in the area for over a century. In addition, Milton Friedman, the economist of dictator Pinochet in Chile, came into Israel and wrecked her economy, provoking triple-digit inflation and worse calamities.

The Carter policy of destabilizing the area, combined

Above: Warren Hamerman

with the economic holocaust imposed on Israel, forced the Begin government to adopt more and more irrational and provocative policies.

Important new opportunities for overall Mideast peace may, in fact, soon be evident. The advent of the new Reagan administration will help foster a climate in which a real Arab-Israeli peace can be inaugurated. The combination of a stable and prosperous Israel and a stable and developing Arab world is the only one that can ensure a durable peace. Potentially, President-elect Reagan may in fact pursue a policy centered on that understanding.

Several weeks ago I accompanied Lyndon LaRouche, former Democratic presidential candidate, to Washington, D.C. where we met with numerous officials of the Reagan transition team, a score of congressmen and senators, and various people with policy influence in the areas of foreign and economic policy (see interview). We also met with several prominent Jewish-Americans who are influential in shaping various policies on the Middle East.

In Washington, Lyndon LaRouche proposed a policy for rapidly achieving a durable peace in the Middle East.

LaRouche proposes that the key to Israeli security and to the establishment of a lasting peace is creating a strong and viable Israeli economic and industrial system based upon a deep commitment to scientific research and application. The cornerstone of LaRouche's policy toward Israel is to organize the United States to support a general reorganization and rescheduling of the Israeli foreign debt in combination with offering her new credit facilities. This action will ease the burden on the Israeli economy and give her some "breathing room." In LaRouche's view, Israeli economic and security questions are thus interrelated.

Objectively, the possibilities for overall peace in the Middle East are greater than ever before. Obviously, great subjective problems still remain. Nonetheless, it is now possible that moderate Arab and Israeli forces can together isolate Colonel Qaddafi and Ayatollah Khomeini as well as split the Palestine Liberation Organization politically. *In exchange for the U.S. and her allies' rewriting of Israeli debt and full guarantee for Israel's 1967 borders, we can establish an independent Palestinian entity in the area.*

The key to the LaRouche policy is for the Europeans and the United States to jointly guarantee a "stability policy" for the region, thus reversing in all essential elements the fatally flawed "Arc of Crisis" policy of Brzezinski and Kissinger.

Among Arab nations, LaRouche proposes that the United States and Europe back a stable combination of four moderates: Saudi Arabia, Jordan, Egypt, and Iraq. Based upon delivering large-scale economic development packages to these Arab nations and the creation of an independent Palestinian entity, they would function in a peaceful entente with Israel.

In addition, we would back the Arab combination of Saudi Arabia, Jordan, Egypt, and Iraq to accomplish two specific tasks within the Arab world: 1) rebuild Lebanon as a nation, which even on humanitarian grounds is urgent; 2) clean out the Muslim Brotherhood network that underlies Khomeini.

If Lyndon LaRouche, Jr. were now President of the United States, I am confident that he could rapidly bring about a true "community of principle" between Israel and the Arab moderates. LaRouche, after setting up the deal, would allow the European combination of France, Germany, and Italy (with input from Japan) to essentially manage the arrangement politically. Thus, he would mandate an immediate practical feature for moving ahead with Phase Two of the European Monetary System, the creation of a gold-backed new world monetary system designed around economic development packages for the so-called Third World. Such a package, of course, means the creation of a fantastically increased market for American exporters.

Under European management, the rescheduling of Israeli debt could inaugurate a coordinated regional economic development program that would include the reconstruction of Lebanon and the creation of an independent Palestinian entity. If that can be secured, even in principle, then the fall of the evil Khomeini regime is virtually guaranteed.

LaRouche's policy proposal is ultimately concerned with the introduction of very high-technology industrial and agricultural techniques in the Middle East. In particular for economic growth, the region needs nuclear energy capability in conjunction with advanced water (irrigation and desalination) projects. The Soviet Union would have much to contribute in introducing advanced technologies to the area.

Perhaps the key reason to insist that a European combination of Giscard of France, Andreotti of Italy, and Schmidt of West Germany politically manage the Mideast peace package is that they may more readily distinguish which Soviet political faction to cut into the peace program. Broadly speaking, it is the "British" faction of Philby and Averrell Harriman's friend Arbatov who have done more than their share to make Mideast peace impossible. Those who knew in 1948 that to kick the British out of the Mideast would achieve peace were right.

Bipartisan support from all Americans would flow to President Reagan were he to act on LaRouche's program. All Americans would welcome the replacement of Brzezinski's "Arc of Crisis" with an "Arc of Stability."

Let us now transform the possibilities into reality.

INTERVIEW

Talking about the job ahead

The chairman of the National Democratic Policy Committee on Washington and the party's future.

The following interview with National Democratic Policy Committee Chairman Warren Hamerman took place on Dec. 17 in New York City. The NDPC is a political action committee designed to support Democratic candidates and officeholders; its advisory committee of scientists, businessmen, labor, and farm officials is chaired by EIR *contributing editor Lyndon H. LaRouche, Jr. According to the NDPC, the body was "formed as an alternative think tank to the Brookings Institution, RAND, and other advocates of austerity, to reconstitute an 'Alliance of Producers.'"*

EIR: What shape is the Democratic Party in six weeks after the election?

Hamerman: Potentially, the Democratic Party is now in an excellent position to rebuild itself after the population so resoundingly rejected both Jimmy Carter and the entire rot of "McGovernism" in the recent elections. Traditional Democratic constituencies—labor, agriculture, minorities and other urban populations—participated with joy in kicking Carter and all he stands for out of office.

In fact, these were the same people who voted Carter into office in 1976 because then the population was so fed up with Washington and elected the man who promised to clean things up. Lyndon LaRouche aptly pointed out about the 1976 election that just because a man places a skunk in his neighbor's henyard, doesn't mean the man likes skunks.

Therefore in 1980, at the first chance they got, millions of Americans voted against Carter in such a decisive way. The entire future of not only the Democratic Party but of our nation depends upon how successfully we respond to the unique mandate from the population. In the main, Americans were motivated to send a clear political message to Washington in 1980 about their absolute rejection of the economic policies of austerity and depression symbolized by the high interest rates of Paul Volcker at the Federal Reserve as well as the ultraliberal British-style foreign policy of destabilizations, psychological games, and weakness.

Also, people voted against the so-called tolerant approaches of the Carter and McGovern crew to the growing epidemic of drugs among our youth. Incidentally, in Washington right now a certain prominent nose and throat physician is lamenting the loss of business because he had been treating all the cocaine users at the Carter White House.

EIR: How does the NDPC see its role now?

Hamerman: The basic problem Ronald Reagan has if he is to fulfill the mandate of the elections is with the "big shots" in Washington from institutions like Brookings, RAND, the Council on Foreign Relations, the major national media and so forth.

The solution lies in mobilizing the "little shots" from around the country to have an effective policy input into government. The "little shots" in the so-called boondocks of America potentially exert far more policy judgment and clout than, for example, both Jimmy Carter and Bob Strauss gave them credit for. By "little shots" I mean the regional bankers and savings and loans officials who are virtually ready to hang Paul Volcker in effigy, the trade-union officials in local and regional organizations who disagree on policy with Lane Kirkland, who after all worked for Carter, the leaders of farm organizations, the heads of minority organizations and so forth.

The role of the NDPC is to mobilize these constituencies into an effective political force, to overflood Washington with the reality of what the nation is thinking on key questions. Given the terrible dishonesty and deliberate manipulations which our major national media practices, obviously the NDPC views as its primary responsibility the task of adequately informing the population on major policy issues, so that citizens may be consulted and respond to judgments from an informed standpoint.

The greatest danger our nation immediately faces would be for Ronald Reagan to become "Nixonized." Long before Richard Nixon was watergated, he was first isolated and placed in a controlled policy environment. When Nixon wanted to know what Europe was thinking on any given question he would not call up a European head of state and ask him. Instead, Nixon would consult Henry Kissinger, who would phone up London or some resident Jesuit somewhere, and feed back a line to Nixon. Domestically, of course, Nixon was totally isolated from the constituents who voted him into office.

In addition to mobilizing and informing the population, the NDPC has the responsibility of developing the specific policies which can solve our nation's problems. In that sense we are a think tank as well.

Specifically, in the United States the NDPC has the task of mobilizing traditional Democratic constituencies to take the policy initiative in proposing bipartisan programs to the new administration. Finally, we are the only force traditional Democratic constituencies can rely on to rebuild the Democratic party. As the elections proved, we were marching in step with the policy intent of the American population

EIR: What is your estimate of the potential for bipartisan legislative action?

Hamerman: The key to the entire situation is removing Paul Volcker from the Federal Reserve and changing the policy underlying his high interest-rate regime. We have proposed two pieces of legislation for the new Congress.

The first is a draft Federal Reserve Reform Act, which amends the Federal Reserve Act of 1913 to provide credit expansion without inflation, and restores to Congress the constitutional power to regulate the currency. The second is a proposed Taxation System for Capital Formation Act, which proposes selective tax cuts for both households and industries in all areas of productive investment and closes the loopholes in speculative and black-market areas. For instance, are you aware that the total value of New York City real estate is larger than the value of all plant and equipment in American manufacturing industry?

To set the American economy back on the track of the sort of sound banking and fiscal policies of Alexander Hamilton, our first secretary of the treasury, the new Congress must also repeal the hideous Reuss omnibus banking act passed in the last session. Congress absolutely has an important mandate to restore strength to law enforcement and the intelligence agencies around the declaration of a war against drugs which are so crippling our youth. Around these measures there is strong bipartisan agreement. Any congressman or senator who persists in ignoring these programs will of course be "Carterized" in the 1982 elections.

EIR: What does the new Congress look like from this point of view?

Hamerman: Potentially, the Ninety-Seventh Congress can be an effective vehicle for restoring our nation's progress. In the House of Representatives, Speaker Tip O'Neill only kept his position because he promised to announce his retirement in 1981, and because he made a host of concessions to the Conservative Democratic Forum, a grouping of forty or more Southern conservative Democrats.

What's the problem with Tip O'Neill? In a few words: when Lane Kirkland talks, Tip O'Neill walks. Kirkland is a kooky spy in the labor movement who is connected into the most unsavory European socialists and extreme left liberals in this country. Kirkland didn't come up through the ranks. He's an impostor with top Foreign Service training who was inserted into the labor movement by Jay Lovestone and Arthur Goldberg. Kirkland comes from a plantation family in South Carolina, and he still refers to the Civil War as the "War of Northern Aggression." Certain people in a position to know told me that Kirkland drew up a list of his recommended committee chairmen and gave it to O'Neill before the last Congress; Tip O'Neill implemented ten out of Kirkland's twelve recommendations.

The second problem in the House was that a number of good Democrats were defeated in the last election. The best example was Mike McCormack, who headed the Science and Technology Committee and was the resident congressional expert on energy policy.

Despite these two problems I am basically optimistic about the new Congress, provided that the pressure from the little shots arround the country can be effectively transmitted. Of course, we have to get back to the old seniority system for committee selection and most important of all, give congressmen time to think.

Overall, we are working to put together with others a true bipartisan coalition of the conservative Democrats from the South, the blue-collar Democrats from the North, and the scientifically and industrially oriented congressmen from the Republican side. Several congressmen working with us estimate that a core grouping of well over a hundred cooperating across the aisles is already forming.

You can see the result of our work and the mood in the country by the quality of debate on the high-interest strangulation of the economy during the closing days of the last Congress. The Senate also passed an excellent resolution against the "Deliberate Recession" policy of Volcker. The Senate side of things will be much better now that the outrageous kooks like George McGovern are out of there.

Our problem will be in getting some senators to rise to the intellectual challenges of defining policy in the national interest. I was pleased with Caspar Weinberger's statement when his nomination for secretary of defense was announced. He stated that the policy questions on substantive defense matters ought to be made in the Senate for the coming period. That was one of our proposals, which we floated with some senators a few weeks back.

EIR: You recently returned from Washington. . . .
Hamerman: During the first week in December I accompanied Lyndon LaRouche to Washington. We met with half a dozen people responsible for different policy departments in the Reagan transition team, ten or so congressmen and senators, and a great many individuals influential on various key overall international and national policy questions.

I have been in Washington at least one day week since the August Democratic convention, and one thing in particular struck me. All sorts of people, especially government officials who used to cynically "dump on" the American population, have developed a new respect for the American citizenry as a result of the election mandate.

EIR: How does the situation look around the Democratic National Committee and the House Democratic leadership?
Hamerman: Politically, the battle for the direction of the Democratic Party is more advanced than the battle for policy control in the Congress. In February, a new Democratic Party chairman will be selected—goodbye John White. On December ninth in Washington, there was a meeting of most of the Democratic state chairmen, followed by a meeting of the Executive Committee of the Democratic National Committee.

Basically, a number of the Democratic chairmen who have been feeling the heat from their constituents back home came into the meeting pretty angry. There were two issues. First, there was a general demand for a full-scale independent audit of how Democratic Party finances had been spent over the last year. What came out at the meeting was that the Carter crew, John White and Bob Strauss, came into state after state and robbed the coffers dry and then put all the money into Carter's doomed election campaign. That's how a lot of good Democrats were defeated.

The second angry demand was to return the party to the old "patronage system," where elected officials and local party leaders could effectively represent the interests of their citizens. Along these lines it looks fairly certain that elected Democratic congressmen and party officials will automatically be on the Democratic National Committee. If this system of representation had been in effect, Jimmy Carter would never have gotten the nomination at the August at the New York convention.

We should not underestimate the slick games the McGovernite crew will use to hold onto their power. Morley Winograd from Michigan, the man who wrote the kooky McGovernite reforms of the Democratic Party, tried to run the December ninth meetings in Washington like he was conducting a T-group session. The chairman from his state, Sam Fishman, and Mark Hogan from Colorado have to go. Hogan and Pat Schroeder are so far out they make George McGovern look like a conservative. The Colorado and Michigan problems need cleaning up. On balance, the Democratic Party is most sensitive right now to the power of its constituents' mandate in the elections. We have two years until the 1982 midterm convention. We know exactly how to rebuild. In fact, because during the election campaign I was the national campaign director for Lyndon LaRouche, a number of sentiments were communicated directly to me that "if we had listened to LaRouche's hardball economic policies during the election we would have done far better."

EIR: Where do you think Ted Kennedy will go from here?
Hamerman: Ted Kennedy can win his re-election in 1982 and be a viable national leader on only one condition: he must stop acting like the younger brother of George McGovern, and start acting like the younger brother of Jack Kennedy. Jack Kennedy was the initiator of the NASA space program, strong on research and defense, strong on promoting industrial expansion. The tremendous anti-Carter sentiment in the population shown during the election also existed during the primary season. But because Ted Kennedy marched in the opposite direction from the American population, he got the leftovers from Gene McCarthy and McGovern.

Everyone talks about how powerful Kennedy's convention speech was. One day I may reveal the full story. But the important thing for people to know, in addition to what was said, was what things were also in the speech that Teddy did not want to go with. These things would have taken Teddy back to the policy course of brothers Jack and Bobby to the same extent. Basically, Ted Kennedy's future is up to Ted Kennedy. He can probably have it all . . . or nothing.

EIR: What's the state of labor-Democratic relations?
Hamerman: Labor will not leave the Democratic Party—she will force the Democratic Party to change. Look at the discrepancies. Lane Kirkland, Sol Chaikin, and a host of other big names were out there giving the "do or die" for Jimmy Carter. The local and regional membership and more than a significant number of local and regional officials publicly were saying they were for Carter while stabbing the S.O.B. in the back. I know this from the inside. The media pollsters were thoroughly fooled by this; that's why they fell flat on their overpaid faces.

Labor stuck Carter in the back. His economic policies were wretched and he was running a witchhunt against legitimate labor leaders through Brilab and Abscam. Labor must throw its Confederate leader Kirkland back to the Georgetown Foreign Service school where he was groomed and get back to basic policy input. Labor will be the key to rebuilding the Democratic Party.

Soviet Union far ahead in PNE use to develop energy

In early December the Dow-Jones wire services carried an item taken from the reputable French *Bulletin de l'Industrie Petrolière.* The wire story sent jitters through the New York Stock Exchange, with Exxon dropping two points and Standard Oil of California, four.

The French article which sparked the short-lived excitement was based on an earlier report from a Malmö, Sweden research firm, Petrostudies. According to that report the Soviets have discovered an oil field in Western Siberia of an estimated 619 billion tons, approximately 4.5 trillion barrels of oil. If accurate, this would make it the largest field in world history and more than twice current estimated total world recoverable oil reserves.

Within hours, the Petrostudies report was denied or dismissed as "ridiculous" by authorities from the U.S. Geological Survey to the Soviet Academy of Sciences. But, aside from the sensational headlines, there may be a far more significant story going largely unnoticed in the United States.

Soviet PNE program

In the process of evaluating the first report, I spoke to a leading geologist with the U.S. Geological Survey in Reston, Virginia.

Jack Rachlin, who specializes in Soviet geology, pooh-poohed the Petrostudies report as being apparently unfounded, but directed my attention to a paper which he and another colleague presented earlier this year. Rachlin's work was the subject of a little-noticed summary article in the June 16, 1980 *Oil & Gas Journal* titled, "Salym: potential West Siberian oil giant."

What is somewhat buried in the *Oil & Gas Journal* report, but is explicit in the original U.S.G.S. paper, is their evaluation that the Soviets have been deploying what are referred to as underground Peaceful Nuclear Explosions (PNEs) in the vicinity of the Salym oil field of Western Siberia as a part of an ongoing series of experiments on petroleum development: "A seismic event of October 4, 1979, east of the Ural Mountains, was described by the U.S. Department of Energy as an underground nuclear explosion. The location of this event by the U.S. Geological Survey places it in the oil-rich Middle Ob region of West Siberia in the vicinity of the Salym oil field"* (see map).

If this is accurate as our best informed geological estimates indicate, what does this mean? Since the earliest days of the Eisenhower Atoms for Peace effort in the 1950s, the peaceful application of nuclear explosions has been the subject of immense promise for accomplishing tasks that would be prohibitively costly by conventional means. The United States' efforts in this direction were dubbed "Operation Plowshare."

I spoke with a leading authority at one of the U.S. national scientific laboratories on the relative state of the art between the U.S. and U.S.S.R. in peaceful nuclear applications. His statement is sobering: "There is no question in my mind," he stated, "the Soviets are aggressively pursuing PNEs in a variety of applications. There is no question it's true that they have a tremendous lead."

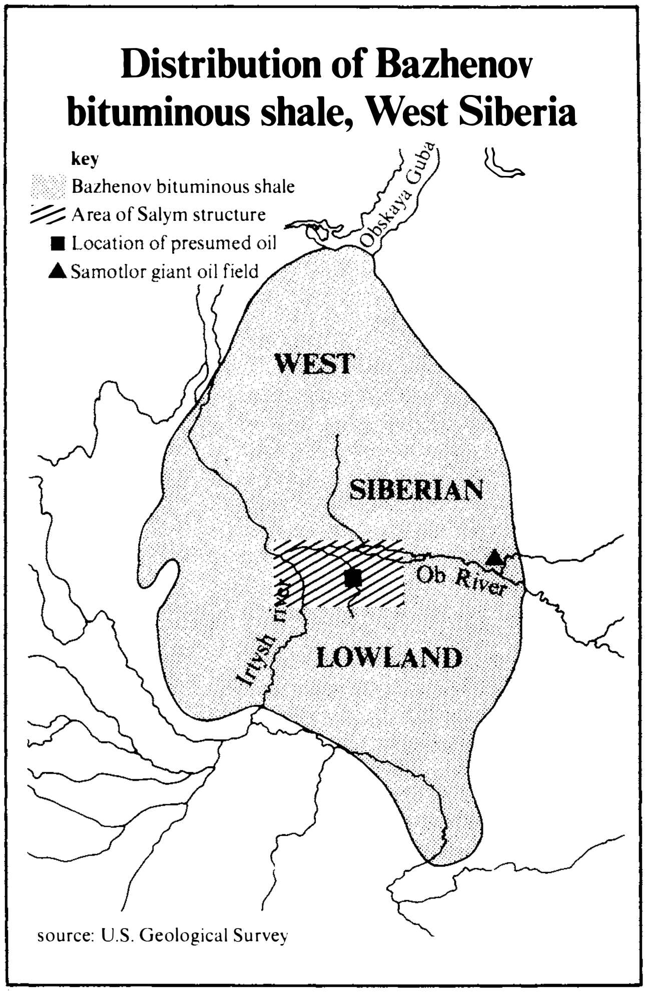
One reason for their lead is the fact that since approximately 1972, the United States, "for political reasons," has essentially halted all active PNE testing, despite the fact that they are known not to produce any significant increase in radioactivity because of the physics of underground detonation. Current Defense Secretary Harold Brown, in cooperation with the Carter State Department, has been instrumental in effectively aborting valid U.S. efforts under the false rubric of nonproliferation.

Oil recovery

How could such an underground nuclear explosion aid in oil recovery? As Rachlin told me, as early as 1967, two years after substantial oil finds were discovered in that region of Western Siberia, Soviet geologist A. E. Kontorovich calculated that "the liquid fractions of petroleum of the Upper Jurassic bituminous shales of West Siberia total 2 trillion tons." This translates into more than 14 trillion barrels of oil potential, a considerable increase even from the enormous 4.5 trillion tons calculated by the Petrostudies report.

The significant question, as Rachlin confirmed, is how much of this potential oil wealth is economically recoverable.

It is, in effect, locked into tight bituminous shale rock at a depth of approximately 8,400 feet. "The explosion at the Salym field," Rachlin states, "may have been an experiment to stimulate production by extensive fracturing of the tight bituminous shales. Such an explosion could in effect produce a rubble chimney and fracture envelope tens of meters in radius. This fracturing could raise production rates, make larger or additional areas of the Bazhenov Formation susceptible to production and decrease exploitation costs." In short, there is overwhelming evidence, corroborated by some of our best scientific experts here, that the U.S.S.R. is applying PNEs to tap this huge oil potential in Western Siberia.



PNE technology

The fact that the United States presently has all but halted work in this peaceful application of nuclear force is a scandal of enormous dimensions. In a 1975 review, Milo Nordyke of Lawrence Livermore Laboratory, considered the top U.S. expert on the Soviet PNE program, reviewed Soviet data on the peaceful uses of nuclear explosions for the *Annals of Nuclear Energy.* His material was drawn from public presentations to meetings of the International Atomic Energy Agency and various scientific publications. Nordyke noted that even five years ago or earlier, the Soviets were publicly reporting results of experimental explosions designed, among other things, for applications in the petroleum, gas, minerals industries; in water resource development including creation of crater-lip dams for water storage reservoirs; and creation of a canal linking the Pechora and Kama rivers to the Volga River and the Caspian Sea.

In the petroleum field, Nordyke cites reported experiments involving underground nuclear detonation to bring runaway gas wells under control and oil field stimulation by breaking underlying barriers so water will force oil to top. Other projects have been concerned with creation of underground storage of oil or gas in salt domes.

Commenting on these developments in 1975, Nordyke noted that "the Soviet PNE program appears to be very broadly used to assist in the development of their natural resources with a number of technical areas being developed simultaneously."

In this context, then, the evaluation of the U.S. Geological Survey that the Oct. 4, 1979 seismic event in the proximity of the Salym oil fields "suggest another experiment concerned with petroleum development" assumes a far more significant character than the Petrostudies report. It suggests the appropriateness now of a full review of the earlier decision to mothball our Operation Plowshare peaceful nuclear explosion program.

It also points up the fallacy of the notion, widely circulated during the past decade by the Club of Rome, Aspen Institute, Ford Foundation, and similar think tanks which peopled top Carter administration posts, that the world, and the Soviet Union in particular, is running out of oil and therefore will be forced to compete for Persian Gulf resources.

* James W. Clarke and Jack Rachlin, "Salym—potential giant oil field in West Siberia, possible reservoir stimulation experiment using a nuclear explosion." U.S. Geological Survey Open-File Report 80-145, 1980.

National News

Reagan forms new policy coordination body

President-elect Ronald Reagan announced the creation of a a new branch of the executive-branch transition Dec. 15. Called the Office of Policy Coordination, the new unit is charged with gathering information from a variety of sources and developing issues and policy options for consideration by senior transition officials, cabinet officer designees and the President-elect.

Named to head the OPC was Darrell M. Trent, who is on a leave of absence from the Hoover Institution. A colleague of Reagan's chief domestic adviser Martin Anderson, Trent will report directly to transition director Edwin Meese.

The OPC is divided into six subsections: Human Services, Resources and Development, National Security, Legal and Administrative Agencies, Science and Technology, and Economic Affairs.

According to Reagan transition team spokesmen, the OPC will concentrate on planning an agenda for the incoming administration, including executive and legislative initiatives intended to implement the programs and policies of the Reagan government.

Soviets meet with Republican advisers

Georgi Arbatov, director of Moscow's of U.S.A.-Canada Institute and a member of the Soviet Union's Central Committee, led a delegation to the United States during the second week in December, for private meetings at the Foreign Policy Research Institute of the University of Pennsylvania. One of the main subjects discussed by the Soviets was arms control negotiations.

The Americans attending included William Kintner, director of the institute; Paul Nitze, former navy secretary and founder of the Committee on the Present Danger; Army General (retired) Richard Stilwell, former commander of American troops in South Korea; W. Scott Thompson, professor at the Fletcher School of Law and Diplomacy; and Helmut Sonnenfeldt, a former top State Department official. All these men have been on panels advising the incoming Reagan administration.

According to one participant at the meeting, the Soviets indicated that in regard to arms control, "they are interested in talking. The Soviets maintain that SALT II should be the basis for future negotiations. It is up to the U.S., they believe, to make any other proposals. It is a sensitive issue though; they are afraid that we would try to inject things into the agreement they have already rejected. The Soviets have the hope and expectation that they can do business with the new administration, that it will be more predictable than the old one."

N.Y. Fed witnesses demonstration

EIR economics editor David Goldman delivered an angry message of protest on Dec. 18 to the headquarters of the New York Federal Reserve Bank, against the Fed system's high interest rate policy.

On invitation from the National Democratic Policy Committee, a multiparty political action committee, Goldman addressed a rally held outside the Wall Street New York Fed office, through a loud bullhorn which could be heard in every Fed office there.

As Goldman spoke, NDPC representatives carried an effigy of Federal Reserve chief Paul Volcker up the Fed building staircase, and invited Fed employees to shake the effigy's hand. Passersby asked rally organizers, "Who is this man Vulture?" When told, "he's the one who pushed up interest rates," observers frequently responded by pointing to the effigy and saying, "hang him."

Opposition to Volcker was also voiced on Dec. 17 by Lone Star corporation, a leading cement and construction materials producer. Lone Star purchased full page ads in the *New York Times* and *Washington Post*, which read in large letters, "Warning, Poison," and then stated, "The interest rate policy of the Federal Reserve System is driving the economy of the United States into self-destruction."

Lone Star reports that its switchboard was tied up all day Dec. 17, as hundreds of callers around the nation thanked them for the ad, and read texts of angry telegrams they planned to send to the Fed in Washington.

Senator Heflin calls Volcker inflationary

Senator Howell Heflin (D-Ala.) has sent a letter to Federal Reserve Board chairman Paul Volcker demanding that he take "immediate steps to bring about a dramatic reduction in interest rates." According to the *Birmingham Post Herald*, Heflin, who is close to farm groups in Alabama, warned Volcker that the Federal Reserve's tight-money policies were in fact "fueling rather than halting inflation." He termed "disastrous" the effects of high interest-rate policies on small business, homebuilders, farmers and average consumers.

Farmers in particular will suffer, Senator Heflin warned, unless interest rates are lowered before the start of the next planting season. Heflin reportedly is returning to his Alabama constituents during the Christmas season to campaign against Volcker.

Senator Schmitt rejects economic shock treatment

Senator Harrison Schmitt (R-N.M.) this week attacked proposals for budget-cutting "economic shock treatment."

In an interview with the Dec. 19 issue of *Science* magazine, Schmitt, a former astronaut, said: "I've seen statements attributed to Congressman Kemp and Congressman Stockman and George Shultz to the effect that the economy needs shock treatment, and the treatment should be administered without discrimination, wherever there is money to be cut. I frankly think that this is unnecessary and extraordinarily dangerous.

"You might have a brief pulse of improvement, but the country will start going downhill again very rapidly unless we rejuvenate our technological base. However, let me say that I think that those areas of science and technology that are short term in their impact can best be handled in the private sector through tax and regulatory incentives. Those that are long term and high risk are going to need a major federal presence. . . . I believe that in the next ten years . . . we could demonstrate commercial feasibility of fusion power, and within 20 years we could have a major commercial fusion plant in operation. . . . As a portable fuel we will eventually be headed toward hydrogen."

Heritage pushes Hobbs Act reform against labor

Senator Orrin Hatch, the Utah Republican who will head the Senate Human Resources and Labor Committee, says that he plans to push for reform of federal anti-extortion statutes to make labor officials and union members liable for prosectuion for strike violence.

The AFL-CIO says that they will mobilize against the move, charging that it would make simple picket-line violence a federal crime with stiff penalties. Labor officials point out that such violence is often provoked by company provocateurs. Under a 1973 Supreme Court decision, *U.S. vs. Emmons,* "legitimate labor activity" is specifically excluded from coverage of the federal extortion law, the Hobbs Act.

EIR has learned that two antilabor organizations, the Washington-based Heritage Foundation and the Associated Builders and Contractors (ABC), the open-shop contractors group, are behind the push to reform the Hobbs Act. They are working through Robert Hunter, Senator Hatch's labor aide, who heads the Heritage Foundation task force on the Labor Department and labor policy.

"We want to use the Hobbs Act reform to break the power of organized labor," said John Reed, an ABC official who served with Hunter on the Heritage task force.

IPS networks predict chaos

Jeff Faux, codirector of the Exploratory Project for Economic Alternatives, a group set up by the Washington-based Institute for Policy Studies, told a reporter last week that some of his colleagues are members of Reagan transition teams.

He predicted a "period of indecision, followed by chaos"; "No one really knows what to do," he said. "So they will stumble along for several months. . . . Volcker, who does know what he is doing, will effectively determine economic policy."

Faux stated that the nation is already well on its way to becoming "Thatcherized"—i.e., suffering under the economic policies the Thatcher government has imposed in the U.K. The Thatcherization of the U.S. started in 1978, according to Faux, and President Carter's appointment of Paul Volcker to head the Federal Reserve clinched the first phase of the process.

National Farmers Union demands action

At a Dec. 8 meeting in Des Moines, a grouping of National Farmers Union delegates called for action to combat high interest rates. The following statement was released by the group:

"The current high rates of interest are neither economically or morally justifiable. The concept of combating inflation with high interest rates has proved to be counterproductive; therefore, we urge the Federal Reserve to reverse its current credit policies.

"The practice of allowing lending institutions to write loans on floating interest rates removes a stabilizing influence on credit markets, small business, and other capital investors. We urge a return to fixed rate financing that encourages business expansion and full employment."

Briefly

- **SENATE** Permanent Investigations Subcommittee staffers are upset with the announced plans of the new chairman William Roth, Republican of Delaware, to "refocus" their work. Under Democrat Sam Nunn of Georgia, the subcommittee had engaged in what some people termed witchhunts against labor leaders. Senator Roth has cut the budget of the racketeering investigation in half and told people that he wants the committee out of the business of criminal investigations.

- **EX-MOONIE** Michael Young Warder has been appointed Director of administration for the Heritage Foundation, a nominally conservative think tank based in Washington, D.C. Prior to this Heritage appointment, Warder was the publisher of Reverend Sun Myung Moon's daily house organ *News World* and was a member of Moon's Unification Church.

- **GUS TYLER,** a vice-president of the International Ladies Garment Workers Union, told a private Florida seminar of the Fiscal Growth Policy Council that "high interest rates are the single most inflationary factor in our society. . . . They drive out small businesses. . . . They drain away funds which might otherwise be spent on research and development . . . and they leave the most efficient or capital intensive industries with idle overhead."

- **ASSOCIATED BUILDERS** and Contractors (ABC), the open shop contracting outfit, says that it still supports the Federal Reserve's tight-money policies. Their support dates back to a meeting last April, when the prime interest rate first hit 20 percent, between ABC leaders and Federal Reserve Chairman Paul Volcker. The Fed chairman, ABC sources report, shares the view of open-shop contractors that the Davis-Bacon Act should be repealed because it is "inflationary."

Heritage Foundation infiltrating Congress and the White House

by Lonnie Wolfe

The Washington-based Heritage Foundation has surfaced in an effort to conduit a nest of KGB moles into the incoming Reagan administration and the staffs of conservative congressmen and senators. Along with the ongoing efforts of the current Carter administration to provoke a strategic crisis and pre-empt the ability of a Reagan White House to reassert policies in the basic interest of the U.S., the Heritage Foundation operation represents the single most dangerous effort to destroy the incoming administration.

Heritage Foundation press spokesman Herb Berkowitz told a reporter last week that the foundation has prepared a computerized list of over 4,000 individuals, mostly from the "Heritage Resource Network," to be recommended for appointment to executive branch posts and for congressional staff appointments. Berkowitz said that Heritage was specifically targeting the undersecretary cabinet posts for appointments from the "network." These are where "real policy is made," he said.

Willa Ann Johnson, the Heritage vice-president in charge of running the foundation's "resource network," said that her operation would wind up providing "much of the staffing" for the Reagan executive branch and for new congressmen and senators on Capitol Hill. She declined to give a precise estimate of the numbers of Heritage operatives who have already been placed or who are in line for placement.

The Resource Network, established in 1977, serves as an employment service, as described by Berkowitz and Johnson. Its computer banks contain security-clearance-style dossiers on most conservative thinkers.

Its most important function, however, is as a containment and control operation against traditionalist, nationalist tendencies in the United States.

The network encompasses more than 350 institutions and more than 1,000 nonaffiliated conservative academics. From Johnson's own description, it is a mixed bag, containing Heritage-allied thinkers and institutions such as the Hoover Institution, the American Enterprise Institute, the Wharton School, MIT, Harvard and Columbia, and numbers of other, often smaller institutions and individuals who "may differ markedly with our policies," said Johnson. Heritage's goal is to control them by "controlling the intellectual environment in which they operate." Heritage uses the network to control "ideas."

The operation is run on the principle of networking developed by the London-based Tavistock Institute of Human Relations as a method for controlling widely dispersed groups of individuals through suggestive means. "We don't force people to do things," said Johnson. "We merely suggest that they do. We make people feel that they are more important because they are inside the network than they would be outside. We tell them that the network is more important than they are—without it they would be ineffective as individuals or institutions. We convince people that they must communicate with each other. We are the vehicle for that communication. We are the facilitators."

Such statements sound remarkably similar to those made by Tavistock-trained "touchy-feely" psychologists from such centers as the Esalen Institute in California. Esalen's methods of mind control and manipulation are really not that different from Heritage's.

The establishment of the network coincided with the beginning of a conservative and mainstream upsurge against the Carter administration. The controllers of the Heritage Foundation, which include the same individuals presently running the Thatcher "experiment" in Great Britain, targeted these strata for subversion and control.

Heritage penetration of the Reagan transition team, while not to be exaggerated, is extensive. Heritage has maintained top-down control over the international agencies transition team from the outset. This team shapes policy for such agencies as the Voice of America, International Communications Ageny, the AID program, the Overseas Private Investment Corporation, the International Monetary Fund, and the World Bank.

This team has been headed by Heritage Board member Frank Shakespeare. It includes Heritage President Ed Feulner, Jr. and Heritage Board Chairman Ben Blackburn. In addition, another Heritage fellow, John Tierney, Jr., was appointed to the transition team dealing with national security matters.

The *EIR* has published information linking the Heritage Foundation in collaborative efforts with the Soviet secret security agency, the KGB, and specifically the KGB faction headed by Kim Philby, which shares the dedication of the foundation's British controllers to undermining U.S. power. Some of the dossiers of relevant associates and officials of the Heritage Foundation have been released to selected individuals in Washington, D.C. and elsewhere. Additional dossiers will be released on a regular basis to ensure that the efforts of the Heritage Foundation to insinuate KGB moles into the Reagan administration are not only defeated, but turned into the basis for publicly exposing the efforts of this KGB apparatus on U.S. soil.