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EXECUTIVE INTELLIGENCE REVIEW

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IN THIS WEEK'S ISSUE —

London's **War on the Dollar** is spilling out into the open... and according to late-breaking reports, **failing**... This week's **INTERNATIONAL** report analyzes the London-led efforts to **scuttle the dollar for the British pound**... details what the City of London wants control of international currency flows for... reveals that the **United States' own Treasury Secretary** is reportedly joining the British in **urging Arab investors out of the dollar**... and presents evidence that the **Arabs are refusing to toe the British line**... and that a **counter-attack on the pound** may be underway...

* * *

Our **EUROPE** report looks at **one counter-pole** to the British moves... the **alliance between France and West Germany** for nuclear energy and economic cooperation, against terrorism... that is **pulling the Soviets into its orbit** on all three issues... a development that has many recalling de Gaulle's "**Europe from the Atlantic to the Urals**"... documented with

an extensive survey of official **statements and press accounts** from **Chancellor Schmidt, Premier Barre**, and others around the continent...

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And in the U.S., a **resounding blow** to London's **terrorist flank**... **Teamster leader Frank Fitzsimmons** names the **foundations and financiers** behind the **PROD terrorists**... links them to a **counterinsurgent strategy against the whole labor movement**... in a move that could signal a **whole new alignment in U.S. politics**... See **U.S. REPORT** for the full text of the Fitzsimmons speech that has been **blacked out** of the rest of the press....

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From U.S. Labor Party chairman **Lyndon H. LaRouche**, a thorough analysis of the **world strategic situation**... that shows the **roots of**

the "**British phenomenon**"... goes behind the surface to show its workings in **southern Africa**... and draws on the real meaning of the term 'republic' to delineate **an alternative U.S. policy**... see "**NATO in Caesar's Foolish Footsteps**" in **INTERNATIONAL**...

* * *

A **report from Mozambique** in **AFRICA** gives **another angle** on the southern Africa story... showing that black and white Africa will **need each other** if **development goals** are to be realized... in a story filed by a journalist **recently returned** from that front-line state... plus an **exclusive interview** with a black African official on the **recent events in South Africa**, underlining that it's not just a question of **black and white**...

* * *

A bill has been introduced in Congress that will **cut off Mexican natural gas shipments** to

U.S. consumers... could **wreck U.S.-Mexico energy cooperation** for good... This week's **ENERGY** report looks into the story... and finds out the **behind-the-scenes support** for the bill from **Schlesinger's energy czardom**... plus a series of interviews from **all sides of the issue**...

* * *

"**British**" **economic policies** are scrutinized... in a study of **how New York City got into trouble**... and why **Big MAC can't get it out**... A U.S. Labor Party campaign white paper delves into the city's financial state to show that **debt is the problem**... and that Rohatyn and the rest of the MAC bankers have succeeded only in **making it drastically worse**... presenting a "critical case" proof that **austerity doesn't work**... that should be read by anyone interested in the **future of the U.S. as well as the New York economy**... See our **ECONOMICS** report.

INTER-NATIONAL
U.S. REPORT
ECONOMICS
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EUROPE
MIDDLE EAST
AFRICA
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LAW

The London Plot To Destroy The Dollar

British Chancellor of the Exchequer Denis Healey, Bank of England officials, senior partners of Lazard Brothers (London) and Lazard Freres (New York) convened a secret meeting of bankers and senior Arab monetary officials in London Oct. 20, with the object of convincing the Arabs to withdraw masses of funds from dollar holdings, and raise the price of oil. Several sources who attended the invitation-only affair, which had the official sponsorship of the Bank of England, provided sufficient details to the *Executive Intelligence Review* to remove all doubt concerning this publication's charge that City of London bankers and their American collaborators intend to destroy the U.S. dollar.

Whether the British will succeed or not is an open question. But the City of London has thrown all its forces into a big power play for control of world capital flows. At the Oct. 20 meeting, the line of persuasion used by British officials was that the dollar must inevitably collapse, and the Arabs must consider alternative forms of investment.

According to the Bank of England advisors, including one Boulton, the U.S. Administration is in shambles and unable to make economic policy. The trade deficit will continue at the present level of \$40 billion, and the current-account deficit at present levels of \$15 to \$20 billion, for an indefinite period. The basic investment value of the dollar will therefore decline as the mass of foreign-held dollars builds up, and the Arabs, as the largest group of foreign dollar-holders, will suffer the most. Therefore the Arabs should prepare for massive diversification out of dollar assets.

"The Kuwaitis are leading the way to reduce their dollar assets," commented one source who attended the gathering, linked to the International Institute for Strategic Studies. "They began putting funds into gold, but the British induced them to go into sterling instead. So the dollar has been extremely shaky. The problem with the U.S. is that it is addicted to imports of oil."

Britain's Grand Plans

The British further argued that it is nonsense to believe that the United States represents the only capital market in the world that can absorb the petrodollar surplus. What the Bank of England, Lazard, et. al. proposed was not investment of the \$42 billion petrodollar surplus in Britain but *through* Britain into a variety of energy-related projects with high cost and low efficiency, modeled on the North Sea development. Specific projects that have been put on the table include:

1) *The Alberta tar sands*. At the height of the "Project Independence" euphoria in 1974, several American and

Canadian oil companies considered a multi-billion dollar investment program, which would simultaneously have involved one of the largest and costliest construction jobs since the Alaska pipeline. Oil extracted from tar sands compares unfavorably with even such costly procedures as shale extraction, which has a target cost of \$17 a barrel. Cost considerations dropped the original project. However, one British merchant bank has lined up several billion dollars' worth of Arab interest for this project alone, pending Canadian government approval, and higher oil prices.

2) *Mexican oil*. According to sources close to the negotiations, British merchant banks are now conferring with Kuwaiti, UAE, and other OPEC country sources on a proposal to have OPEC finance Mexican oil development, under British management. Earlier this year, a delegation of leading British bankers and monetary officials, including Sir Francis Sandilands, Bank of England Deputy Governor Sir Jaspas Molinan, and Evelyn de Rothschild of N.M. Rothschilds, sounded the Mexican government on the idea of using leftover North Sea oil expertise to handle the development of Mexican oil reserves, valued at up to 50 billion barrels. The British bankers also discussed British financing of the project in general terms, and, according to a senior official at Lloyds' Bank, financing of such loans in sterling.

3) *Falkland Islands* (just ceded to Argentina) which British banking sources believe has an oil reserve comparable to Kuwait.

U.S. monetary authorities and concerned corporations are not in the dark about British moves in this direction. The New York Federal Reserve staff is following closely the City of London's attempts to siphon off Arab capital. U.S. oil companies who deal with the Arab world are extremely well-informed about the situation. One of their officials said:

"Britain's incentive in this is fairly obvious. There aren't sufficient investments in the British economy to draw in Arab funds. If the Brits are proposing ways to invest petrodollars, they are trying to go back to their traditional 19th century role of banker to the world. The only cure for this, I guess, would be more attractive interest rates here to draw in funds — but this is out of the question because of the consequences for the economy — or a more positive investment climate. But we're not going to see that coming down the road for a while, given what the Administration is doing. I'm not sure the companies are in a position to do much about this. It's not our money but the Arabs' and they don't like to be told

what to do with it. And it would be the kiss of death for the oil companies to lecture Chambers of Commerce about attracting more Arab capital."

Nonetheless there are strong, if indirect, signs of major American counterforce to the British. First of all, the Pentagon has transmitted warnings to the Saudi regime, whose security depends on U.S. assistance, that it might regret any decision for a major cutback in production. "If the Saudis cut back oil production the way the British want," said a top Pentagon advisor, they wouldn't last three days," implying that the U.S. would immediately organize a coup. Saudi Arabian Foreign Minister Prince Saud al-Faisal, speaking this week before the National Press Club in Washington, D.C., affirmed that Riyadh's position at the upcoming meeting of OPEC will be to support a small rise in the price of oil. He furthermore emphasized after meetings with both President Carter and Secretary of State Cyrus Vance that OPEC does not intend to impose limits to its oil production. The oil producers, he stated, "will produce the oil they have."

Blumenthal Up to Tricks

Secondly, the strange behavior of U.S. Treasury Secretary Werner Blumenthal, currently on tour of the Persian Gulf, indicates some strange happenings. *Il Sole de 24 Ore* reported Oct. 25 that Blumenthal had proposed to the Kuwaitis that they either continue to accept payment for oil in depreciating dollars, or set up an oil pricing arrangement based on Special Drawing Rights,

* * *

ISS Man:

Arabs Told By British to Pull-Out of Dollar

The following is part of an interview with a source close to the London International Institute for Strategic Studies, who attended the secret Oct. 20 bankers' meeting with Arab officials.

Q: Our banking sources report that a major part of the funds leaving the dollar have come from Arab countries.
A: That's correct. The Kuwaitis have been leading the way to reduce their dollar assets. They began moving into gold, but the British induced them to go into sterling instead. The dollar is getting shaky.

The problem with the U.S. is that it is addicted to oil imports. And there is a further problem with the Saudis. They are fed up with the less-than-honest approach the U.S. has taken in Somalia. The Saudis bankrolled that operation, and now it appears that the U.S. might not provide arms to the Somalis, while the Russians arm the Ethiopians. So the whole Saudi operation could backfire.

The Saudis also feel pre-empted about the deal with the PLO: they would have preferred the U.S. to wait until the Saudis would have brought them in tow their way. This is a strong consideration for the Saudis to shut in capacity and raise oil prices.

(Editor's note: Kuwaiti gold accumulation began last March in cooperation with West Germany's Dresdner

the IMF's currency-basket accounting unit that would compensate for shifts in the dollar's value relative to other major currencies. Administration officials refuse to confirm or deny this report. But one internationally-known partner of a Wall Street investment bank confirmed the Italian story, via his conversations with Blumenthal.

The conclusion is clear. Blumenthal's intention is to wreck the dollar, unchanged from his prediction Sept. 29 at the International Monetary Fund's annual meeting that the U.S. trade deficit would continue unchanged for the next year and more. An SDR oil-pricing system would have two effects. First, it would immediately raise the oil price for dollar-payers by 6 percent. But it would formally absolve the United States of even a pretended obligation to keep the dollar stable, and open the way for a run.

However, press reports from Europe indicate that the Kuwaitis informed Blumenthal that they rejected the idea of an SDR pricing scheme, which is currently a principle agenda topic at the meeting of OPEC experts this week in Vienna preparatory to the ministerial meeting in December. The *International Herald Tribune* Oct. 27 reported that the Kuwaitis abjured the SDRs at Blumenthal's request, which is factually the reverse of what must have been the case. Clearly some other Americans than Blumenthal are talking money questions with the Arabs.

Bank and the Union Bank of Switzerland, who maintain a close relationship on the gold market. The Kuwaitis established several hundred millions of dollars worth of gold accounts, and then transferred gold to the Soviets to arrange purchases of Soviet transferable rubles, in anticipation of substantial trade agreements with Comecon nations then under discussion. This transfer led to speculation on the gold market that the Soviets were net purchasers of gold at a certain point. However, two events interrupted the West German-Swiss-Kuwaiti operation. The first was the June scandal at the Credite Suisse, which led to the assumption of the direction by Lazard partner Rainer Gut. The second was the July 29 assassination of Dresdner Bank chairman Jürgen Ponto. Large Kuwaiti purchases of sterling came later.)

Q: There are reports that Blumenthal is proposing an SDR pricing system for oil to the Kuwaitis. Would this tie in?

A: The Iranians wanted indexation, but never brought it through, and there is no common basis for an indexation package among the Arabs. The SDR idea was discussed before, back in 1975, but the dollar strengthened again before any action was taken. But this isn't the point. The money question has to be tied to the question of output. The Saudis have to cap production. The main issue at the December OPEC meeting will be whether Venezuela and the others can get the Saudis to shut in more capacity. What the British are telling them is that the future investment to go for is new energy sources, and it won't work without an oil price increase. One of the British

merchant banks has already lined up several billion in Arab money for the Alberta tar sands project. The Canadians have their heads screwed on wrong. The government hasn't given them the go-ahead. But that's the only way they are going to get out of their economic mess.

Q: Do you think the Saudis will pull out?

A: They've already started the outflow. I talked three months ago to one of the top SAMA (Saudi Arabian Monetary Agency — ed.) people who said that their contingency plans involved getting out of dollars, slowly, but irreversibly. Our deficits are going to continue, and our oil import requirements will increase. This is what the people who spoke in London (at the Bank of England meeting — ed.) were saying. The Arabs have been going in this direction themselves. But the British have been pushing them on.

Q: How do you read the Administration on this?

A: Well, Dick Cooper (Undersecretary of State for Economic Affairs — ed.) is more or less left out of this. He hasn't managed to get an ear at the White House. He thinks in terms of an adjustment process using all factors, with continuous international surveillance. He's a quick-fix type of guy, and his approach just isn't in the cards. Bergsten (Assistant Secretary of Treasury — ed.) is soldiering on, giving speeches to the effect that the situation looks desperate, but can be made to look good. But that's nonsense. There's a great deal of sensitivity in this situation. We're right on the precipice and it's easy to tip over.

Q: You're talking about a real disaster for the United States.

A: Well, if OPEC cuts production back and raises prices, the U.S. is in one hell of a mess. If the world is told that oil prices just rose 10 percent — well, an economy like ours will be hit hardest. American industry just can't adapt to higher energy costs. It's too energy-intensive. We won't be in the competition with other countries in low-energy, labor-intensive fields.

* *

Hudson Institute: Saudis Caught Between Britain and U.S.

The following are excerpts from an interview with a top international energy expert at the Hudson Institute:

Q: In the wake of the recent OPEC meeting, the secret meeting between the Bank of England and the Saudis on Oct. 20, and the spectacular fall of the dollar on the markets, what do you think the Saudis will do with their oil?

A: No question about it, the Saudis are under heavy pressure to increase the price of oil. I don't think they

will cut production, but there must be, from OPEC and the Saudis' standpoint at least a small rise in the price, say at around 5 percent. This is the Saudis' first fallback position in relation to the price hawks. If the dollar continues to fall, the hike will just have to be higher, there is no way anyone in OPEC can refrain from acceding to this.

Q: So you see the Saudis going along with the British proposals to cut back production?

A: Well, the Saudis have a big political problem. They are very much dependent on good relations with the United States; this is a very large factor in any price rise consideration and a mitigating force. There is no question that the U.S. will have to give up at least a little bit in this situation. There could well be a real run on the dollar developing; if that happens, we'll have to be prepared to give up a lot more.

Q: Do you think a run on the dollar is likely? Won't that, or even the current fall in value and concomitant upward pressure on interest rates, have a devastating impact on the U.S. economy?

A: I can't say there *will* be a run on the dollar, that's been a strong possibility for months, you know, and hasn't happened yet. Put it this way. I see very few hopeful signs on the horizon, all the indicators are not good, and the impact on the economy so far has been very bad. This fact tempers what the Saudis may do, but as I said they just may have no choice in the matter of price hikes if the situation gets worse. Look, if the dollar situation gets worse you could well have an international depression, and then all hell breaks loose.

Q: What do you think of the British scenario to mediate investment of petrodollars in the U.S. and internationally after a dollar collapse?

A: I can't say whether it's true, but it certainly is very plausible. The British would be delighted in this situation, with the falling dollar and the prospects of investments here and elsewhere with their high reserves. It wasn't long ago when they were on the opposite end. Knowing them, they could well do this. The short-term attractiveness of such moves is something they would seize upon, even if it is true that in the long-run a deterioration of the U.S. position would likely spiral into a depression and pull them down with it.

Q: What do you think of Blumenthal's Mideast trip? There are reports that he is actually taking the British line.

A: I don't know if he is doing that, but one thing is for sure: Blumenthal's visit will backfire in the U.S.'s face, no doubt about it. It is doing no good for favorable OPEC or Mideast moves vis-a-vis oil or a peace settlement. His irresponsible remarks and actions have amply demonstrated that nothing good will come out of his trip.

British Plan Economic Recovery At The Expense Of Industrialized Nations

Operating on the assumption that "what's good for the City is good for the rest of the world," London monetarists bluntly outlined their perspectives for the next 10 years at the annual Lord Mayor's banquet two weeks ago. The scenario is to resuscitate Her Majesty's British Empire by scaling Europe down to manageable size and destroying the industrial potential of the United States.

Chancellor of the Exchequer Denis Healey told the gathering of bankers that a "turning point" had been reached in world affairs; now it was Britain's turn to prosper while those countries which had experienced industrial growth took a rapid plunge. "In the decade from 1974, world growth seems likely to be much slower. The biggest check to growth is falling on those who grew fastest in the previous decade," gloated Healey. While Britain would now be able to leverage North Sea oil reserves and its dramatically improved financial position into renewed economic strength, the rest of the advanced capitalist world — notably West Germany, Japan and the U.S., which had made "enormous progress" in the past decade — would have to "restructure their economies to the prospect of slower growth" and smaller increases in world trade, while becoming accustomed to balance of payments deficits.

Bank of England Governor Gordon Richardson elaborated on Healey's schemes, referring to the key role of City of London financial institutions in contributing to Britain's "recovery." Richardson's prescription for economic rectitude included the repayment of Britain's external debt and "responsible husbandry" of resources. Investment should be channeled only into profitable enterprises at home, or if domestic industry cannot make a "good return," investment should be channeled overseas (into energy boondoggles and other quick-profit schemes.)

The entire political spectrum of the British press has already called on Britain's Labour government to lift controls on investment abroad in pounds sterling to enable the City of London to take advantage of its bonanza inflows of Arab money by quick takeovers of U.S. corporations. This was the message enunciated by London Stock Exchange chief Nicholas Goodison, who called exchange controls the worst symptoms of Britain's economic ills and exhorted Healey to dismantle them. This policy would open the floodgates for the Arab money piling up in London to be diverted into the sort of foreign investment which would benefit neither the countries involved nor the British economy.

To complete the picture, London's financial press daily warns of disasters in store for the dollar if U.S. financial authorities continue their present path. The *Financial Times'* arch-monetarist commentator Samuel Brittan argued for an across-the-board 5 percent devaluation of the U.S. currency, for starters. Afterwards, Brittan writes, "private investors and OPEC countries could decide whether they wish to invest in the U.S. at a level

which more accurately reflects the authorities' ability to control inflation."

While such blatant policy commitments may come as a rude shock to U.S. conservatives and economic growth advocates in Europe, these sane forces can take slight consolation in the fact that the British — at least right now — are in no position to move for the economic policy they have laid out. Spokesmen for the London financial community are forced to admit that the British trade unions and industrial interests which back the Labour government present the main obstacle to realization of the imperialist fantasies of Healey and others. Major efforts are now underway to force a political realignment in Britain — possibly by the spring — which would ease the way for monetarists to run the government. A sensitive operation, this would include splitting off the "extremes" of both the Labour and Conservative Parties and leaving a malleable middle-of-the-road coalition, similar to the "bankers' ramp" that effectively governed Britain during the 1931 Ramsay MacDonald Administration. Roy Jenkins, Denis Healey, Edward Heath and other top monetarist figures are currently maneuvering while lesser agents are switching political affiliations with great public fanfare.

Nevertheless, Healey is still hemmed in, primarily by the labor movement which represents the political backbone of the British Labour Party. A much-touted "give-away" budget announced by Healey Oct. 26 amounted to little more than a drop in the bucket compared to City of London reflationary demands. Nor was Healey able to relax exchange controls — an important solution favored by the City for getting Arab "hot money" out of London and into foreign industry portfolio investment. At this juncture, Healey would be cutting his throat prematurely if he advocated the lifting of exchange controls against trade union and left-wing charges that such action would squeeze out funds for domestic, job-producing industrial investment. A victim of his own financial euphoria, Healey is in the same boat as his monetarist consorts — squirming about for a way to cut his losses if the boat sinks.

Healey: Britain On The Rise

Excerpts from the speech on Oct. 20 in London by Great Britain Chancellor of the Exchequer Denis Healey:

I believe, however, that there is another sense in which we may come to see 1977 as a turning point in our affairs. For years now we have seen other countries moving ahead of us enjoying bigger improvements in their living standards, bigger increases in their manufacturing strength. I think there is now at last a real chance of reversing the long decline in our performance relative to theirs.

The decade which ended in 1973 was one in which countries like Japan and Germany made enormous progress relative not only to the United Kingdom but to the United States. It was a decade of rapid growth in the world economy from which those countries benefited most of all through a massive increase in their exports of manufactured goods.

In the decade from 1974 world growth seems likely to be much slower. The biggest check to growth is falling on those who grew fastest in the previous decade.

There is a good chance that with the help of North Sea oil we shall succeed in raising our post-war growth rate over the next 10 years while others grow more slowly than in the past. They face the need to restructure their economies to the prospects of slower growth, smaller increases in world trade and a different balance between export and home demand.

In a period of slower growth the composition and direction of trade which we in Britain have inherited should prove less of a handicap than it was in the 1960s; and we can complete the adjustment of our trading patterns to our membership of the EEC.

Gordon Richardson: Where the Oil Money Will Go

Gordon Richardson, at the same meeting of bankers Oct. 20, outlined where and how North Sea oil revenue will be dispensed:

Oil is a depleting asset. Responsible husbandry of our resources indicate that we need to convert it into a permanent gain — that is, to create additional income-yielding assets and to reduce income-sapping liabilities. There are three ways in which we can do this: by repaying external debt, by investing at home and by investing overseas. The first claim on the use of the North Sea oil should be a strengthening of our external balance sheet.

We all agree, I think, on the desirability of using the benefits of North Sea oil to assist in the re-equipment and revitalization of British manufacturing industry. The question is: how? It is not going to be easy. After the long decline of profitability and the trauma of recent years, confidence in much of the private sector in this country, as elsewhere, has been seriously shaken.

We shall not get the investment we want simply by a flood of finance. Such investment will stem from genuine opportunities affording the prospect of a good return. Moreover we can hardly expect industry generally to find more investment for expansion an attractive proposition until better use can be made of existing equipment. What we badly need is better productivity.

British Banker: Industrial Investment Would Be Fatal

The following is part of an interview given by a representative of Barclays Bank, New York.

Q: What do you think of the future of the pound after Healey's budgetary measures?

A: It does not change anything significantly...limited

measures, absolutely no surprise. I would have liked to see British companies free to invest overseas, but we are still very far from it. The only thing that we can actually expect in the coming months is to increase our investments in the Common market. It is an area where currency controls will have to be soon relaxed, to the best profit for our companies.

Q: Do you see the pound strong against the dollar?

A: Of course, it is going up against the dollar, but this is only half the way. Relative to European currencies, the pound is still weak. An optimistic view stems from the good old days when the dollar was the strongest world currency, but now those days are finished, and we should be more worried by what is happening in West Germany, Switzerland, and even France.

Q: Besides European resistance, what do you see blocking British foreign investments?

A: The narrow-mindedness of our trade-union movement. They say that to invest abroad is to export jobs — and there is not much we can do about it at this point.

Q: What do you mean in political terms?

A: Well, the Labor government is doing a terrific job. We have a strong pound, low short-term interest-rates, capital-inflows...

Q: But no industrial growth...

A: It does not matter. We should invest abroad. Oil receipts cannot be used to generate more investments, more spending in England. This would be fatal.

Q: Do you mean that more industrial investment would be fatal?

A: Under the present circumstances, yes. We cannot afford it. Of course, this means that we should be realistic. One day, maybe much sooner than expected, the Labour Party should have the guts and will to stand up against the trade unions and its own left-wing. This is of course not the official approach of my bank, but fairly accurate reflection of how we see the situation around here: I see the Labour government staying, but as a middle-of-the-road movement dropping its left component. I mean a center-left social democratic combination involving the Labour and Liberal Parties, both the Tories and the left Labourites staying out.

Q: What do you think of Jenkins' plans for a European monetary unit (EMU) in that context?

A: There is no possible agreement with the West European governments at this point. Jenkins has illusions. His job is to produce illusions. But even if his project were successful, it would immediately blow us apart. Investment would go toward the few profitable areas of the European community and avoid places where it is badly needed. Then, imagine what would happen not only in southern Italy, but in Wales, French Brittany, Scotland...Regionalist extremists would then become uncontrollable, and blood would run in the streets. This would mean trouble, and trouble at home.

Q: Is it not possible to control the situation, control the British unions, control Western European economies through Jenkins' "Europa currency"?

A: Look, this would be a nice idea, but the trouble is that we are living in democracies. Britain is not yet one of those nice, neat dictatorships, where things are so much

simplified. I am not advocating it, but the situation of Britain and the pound is based on emotions. And you know that emotions can go in all directions. If the Labour Party does not stand up against the unions and its own left, well, the situation will become very emotional.

City Of London In Hot Water

Oct. 28 — FLASH — As of this writing, news from Europe indicates that British Chancellor of the Exchequer Denis Healey and the Bank of England have failed in their most recent bid to force the Arab governments of the Mideast to move their oil revenues out of the dollar and into the pound sterling.

Saudi and Kuwaiti guests at the Bank of England's Oct. 20 strategy session in London refused to pull the plug on the dollar and move into pounds, according to late reports. Taher Radwan, the chief Saudi delegate at the European-Arab conference now ongoing in Brussels, shifted discussion sharply away from Arab investment policies themselves telling an audience yesterday that Europe should use its industrial resources to develop the Arab world. According to Texas sources close to the Saudi royal family, the Saudis and the Kuwaitis now believe that the City of London controlled Eurodollar market is a swindle, and that their best alternative to continued investments in London is the creation of a local, Arab-controlled capital market, including a stock exchange and banking operations, to funnel oil revenues into development projects.

Only the day before Radwan's speech, the French financial daily *Les Echos* highlighted the vulnerability of Saudi and Kuwaiti short-term investments in speculative paper in London by contrasting the Arab's investment policy to recent French deals that have recycled petrodollars into long-term investments.

This resistance to London's plans from the Arabs, matched at home by profound anti-austerity sentiment in the trade unions, has stymied London's plans to use the cash from increased speculative investments flowing into the city as the basis for a new wave of sterling lending that would give the London-based investment houses strategic leverage over the world economy. Healey was able to announce only a partial lifting of the World War II-era exchange controls that prohibit such lending on Oct. 27, when more sweeping measures were anticipated. Healey's "minibudget" announcement was met with derision by the entire British financial press, which complained bitterly that it would do little to help the City of London control Europe.

London on Last Leg?

The actual weakness of the City of London has been recently exposed in a publication of Drexel, Burnham, Lambert — a financial operation controlled by Belgian Baron Lambert — and by the latest edition of the Morgan Guaranty monthly *World Financial Markets*.

Drexel, Burnham, Lambert, reflecting the views of realistically opportunistic circles of West European finance, advises its readers to invest in West German, French and Australian equities, while reducing exposure in the United Kingdom — except for short-term bonds. Their estimation is that the "dramatic financial improvement" in Britain is based on a "combination of facts and expectation," and can last "six months or so" — a situation which justifies only short-term positions and profits. A test will come after that period, they stress, at the point that the Bonn-Paris axis is reinforced by a stabilized political situation in France and the British trade-unions call for wage increases after "three years of falling living standards." Their final estimation is that "industrial confidence continues to be rather shaky in the United Kingdom," and that there is "unjustified euphoria," because the British government will have no choice but to reflate to "placate the labor movement" and this is "a route not without dangers."

In short, Drexel, Lambert, Burnham is planning to withdraw its investments from Britain by next spring and move into France and West Germany, where they see "a strong recovery" by then.

World Financial Markets even more sternly warns that the sterling situation is shakier than it might seem, pointing out that the British North sea oil bonanza is yet to come, because the country is still running an oil trade deficit of as much as \$1 billion for the third quarter of this year. They warn that the pound should not rise past its current level because most of the capital inflows to the City of London are "hot" money that could be withdrawn overnight; their conclusion is that the British public debt should be repaid ahead of schedule to mop up the excess liquidity, e.g. to Morgan, while the going is good.

The financial press on both sides of the Atlantic is now entering the debate. The New York *Journal of Commerce* today stresses the risky short-term nature of much of London's desposits. The *Guardian* and the *London Times* on the other hand, defend the future trustworthiness of the pound, demanding that Healey push ahead and dump currency controls regardless of "technicalities." The *Financial Times* added that no attention should be paid to the U.S. or West German objections to a sterling mania.

At Least As Good As Gold

Despite their current rocky road, the London Rothschild and the New York-based Lazard Freres interests are confident that they can rule the gold sphere, as a last fall-back option. This is especially true since no

competent alternative to their hegemony has been put forward by the opposition.

On Oct. 28, the head of N.M.R. Metals, the new Rothschild gold trading operation in New York, confided that his factional allies expect "24-hour control of the markets" since "Mr. Rothschild is chairman of the London gold-fixing" and the speculative flurry in New York has opened "new possibilities." It is reported from Wall Street sources that other British bankers are now moving or planning to move into New York to control the

gold market, supporting the initiative of N.M. Rothschild.

Such speculation in gold can be stopped only with a new international credit system based on long-term investment and pegged on gold — not as a speculative commodity but as a basis for economic development. Short of such a political initiative, the world's entire industrial and financial structure is threatened with destabilization by such a Rothschild manipulation.

NATO In Caesar's Foolish Footsteps

The following statement was released on oct.29 by Lyndon LaRouche, Chairman of the U.S. Labor Party.

The last article in the October issue of *NATO Review*, by former U.S. Ambassador to NATO Robert Strausz-Hupé, is representative of the way British influences have corrupted United States policy to the grave disadvantage of our nation's actual vital interests. Mr. Strausz-Hupé is not a gifted thinker. He is rather well informed and his article is not only semiofficial, but an orderly, clinically relevant representation of the kind of disorientation we must finally extirpate from our policy-formulating processes.

The Britain Issue

Since I have had the strongest reasons to lambast the damned British in print (and elsewhere) during recent weeks, I should interpolate a qualifying comment on that fact here before turning fuller attention to the special case of Mr. Strausz-Hupé.

During 1976 and into 1977, I had good reason to hope that the United Kingdom of Prime Minister James Callaghan, the United Kingdom of the Trades Union Congress, of Barclay's Bank and other representative institutions, was in the process of remedying its perspectives. It was ostensibly moving according to the combined light of experience and of the pressures of the present monetary decline and deepening world depression.

I hoped that Mr. Roy Jenkins and what he represented was as safely tucked away from British government as most members of the Labour Party had hoped when Callaghan's supporters shoved that potential "Ramsay MacDonald," Jenkins, off into the European Economic Community Commission. The situation in England began to deteriorate visibly at approximately the close of 1976, although only barely noticeably. It grew bad during the late spring, and took a decided turn for the worse with the untimely death of Mr. Crosland and Mr. Crosland's succession by a Denis Healey protégé, present Foreign Secretary David Owen. From about the end of May of this year, the United Kingdom turned monstrously evil. Most influential British citizens and institutions, grumblingly or otherwise, either actively or passively subscribed to this unwholesome policy turn.

We hope for a change. In course, England must come to her senses. She must cast her lot according to the actual self-interests of her citizens, cast her lot with the

nuclear energy development and high-technology-exports policies adopted by leading forces in France, West Germany, and other countries.

However, even if that happy change develops, the caution I underlined in my book, *The Case of Walter Lippmann*, early this past spring will continue to apply. British ideology is a hideous heritage, which the majority of British people must extirpate from their mental habits before other nations can be confident of that nation's qualifications to be raised to the level of equal among nations united by a community of principle.

It is the British ideology to which most British institutions and people have become habituated which made the United Kingdom susceptible to becoming the instrument for the evil policies of Mr. Jenkins and his accomplices. It is that British ideology, as it permeates Anglo-American and NATO policies, and as that same mental disease continues to impair the judgment of America's policy-making strata, which we confront in a specific form in Robert Strausz-Hupé's *NATO Review* piece.

It is politically and practically indispensable to pinpoint Mr. Jenkins in this connection. However, just as it is necessary to recognize that many within the Labour Party share, to one degree or another, our estimate of Jenkins, Healey, and others of the same ilk, it is necessary to emphasize that behind Jenkins, outside the Labour Party, stands the presently institutionalized form of that cumulative evil of its ideology since the Stuart Restoration of 1660. Just as forces of the British Guelph monarchy, its Foreign Office and the circles of Lord Shelburne, Adam Smith, Jeremy Bentham and Thomas Malthus, linked to the Barings' financial interests, represented the evil against which the American Revolution was fought during the 18th century and the War of 1812, that same essential combination of forces is mobilized behind the facade of Jenkins, Healey, and Owen today.

It is not so much Jenkins himself that is our present problem with Britain, but rather his key role as the instrument of an institutionalized force, an evil ideology traceable directly to the traitorous Cecils of the late 16th century.

Without understanding those facts about Britain, we cannot understand any major problem confronting the United States during the present crisis, and cannot understand that British ideological influence for folly and

subversion which we must root out of our leading institutions now in our nation's most urgent and vital interests.

The Roots of Strauss-Hupe

The present struggle of the United States against the evil forces around Roy Jenkins and others is a continuation of a struggle between humanism and nominalism which is documented as the central feature of Mediterranean and European civilization over a span of at least 3,000 years. It is a struggle by humanism for a form of society based on realizing the creative mental powers of the human mind through the fostering of scientific and technological progress, through the effort of city-builders to lift mankind out of the evil and moral imbecility of bucolic primitive cultures. Against humanism have been constantly arrayed the would-be builders of empires, empires based on a policy of looting and a philosophical conviction whose modern expression is variously known as nominalism and neo-Malthusianism.

During the 18th century, the forces of evil centered around the British ruling Guelph monarchical house and the heirs of the evil nominalists, Thomas Hobbes and John Locke, occupied themselves in the study of the fall of the Roman Republic and the emergence of the Roman Empire. This study was directed to the purpose of ad-ducing from the study of the Roman Empire a political art by which the British monarchy and its accomplices could develop a global rule of Pax Britannica as the intended successor to the Pax Romana.

In reaction against this British venture, the humanists of that century identified themselves with such figures of the Roman Republic as the Gracchi brothers. The fight between the Gracchi and the emerging faction of the Caesars was viewed by both sides of the 18th century as the precedent of reference for the struggle of the humanist leaders of the American Revolution and their European allies against the evil British antihumanist effort to establish a British Empire, an empire based on the same conceptions of law, of man, and of economy which had characterized the Roman Empire as the disaster which set back human progress probably for more than a thousand years.

It is true, of course, that modern academic opinion predominantly locates the emergence of the British Empire during the middle of the 19th century. It is true that self-esteemed Marxists occupy themselves with the same historical delusion. The fact of the matter is that the policy of establishing Britain as an empire was consciously adopted by the circles gathered around Shelburne during the mid-18th century, and that the empire was established in political fact by the 1815 Treaty of Vienna. It is true that it was not until the later part of the 19th century that Britain fully developed the means to realize that policy generally, and not until the later part of that century that the resistance to such a policy from within Britain itself was effectively broken. The British Empire, as policy, was established a century earlier.

If this British conception of empire is set directly against the contrary policies of humanist leaders of the American Revolution, the profundity of the distinctions

shows most readily, and in consequence the true spiritual ancestry of Strausz-Hupé's thinking is exposed as definitively not the American heritage.

We have amply set forth the principled distinctions between humanism and bestiality in other published locations now in general circulation. We need not elaborately develop those distinctions from the ground up here. It is merely necessary to emphasize those aspects of that distinction which bear most directly on the subject before us.

The most efficient approach to the subject in the present context is to treat the economic distinctions as the determining source of the other practical distinctions.

The humanist outlook (in strict modern language, the Neoplatonic humanist outlook in the tradition of the Ismailis, the Hohenstaufens, the early Freemasons, Cardinal Nicholas of Cusa, Erasmus of Rotterdam, and so forth) defines the origin of wealth to be those increases in the productive powers of labor realized through the practical application of advances in scientific knowledge. In short, technological progress. This also means that for humanists there are no fixed kinds of natural resources for once and for all; rather, the nature of natural resources is constantly redefined to man's advantage as technological progress diminishes the social costs of old kinds of resources and defines entire new kinds of resources.

The antihumanist or bestialist outlook is properly called bestialist because, like Thomas Hobbes or Jean-Jacques Rousseau, it denies any qualitative distinction between man and the lower beasts. It denies any fundamental importance for scientific knowledge — and, most frequently, has stated that qualitative advances in scientific knowledge have been virtually exhausted, as Bertrand Russell and John Dewey insisted during the 1920s, as the rabid nominalists insisted earlier during the 13th and 14th centuries, and as the evil Al-Ghazali professed, to the consequent ruin of Baghdad and Cairo during the 11th century.

Denying the essential importance of technological progress, bestialism, as did Al-Ghazali or Bertrand Russell, repudiates that which uniquely distinguishes man from the lower beasts, man's mental-creative powers for progress in self-perfection of knowledge of the lawful ordering of the universe. Thus, denying the positive role of science for progress, the bestialist denies the positive value which a single individual properly has for his or her entire society — the fact that a single creative mind, variously by discovering or transmitting advances in scientific knowledge for social practice, makes a universal practical contribution of permanent value to society as a whole.

By degrading man to a fixed level of technological practice as the normal limit of progress, the bestialist degrades man into the likeness of a baboon, a creature of a fixed capacity for range of social behaviors. The bestialist, like the evil Francis Bacon and his protégé Thomas Hobbes, would strip man of what Christianity designates as the human soul, the power of mental creative powers of self-perfection in knowledge of universal law. The bestialist thus degrades man to the lower-beastlikeness of a mere biological individual of fixed, heteronomic feelings and localist judgmental

impulses.

In consequence of this the bestialist (nominalist, empiricist, linguist, systems analyst) defines wealth in the terms associated with the crudest early 18th century physiocratic views: in terms of a fixed bounty of nature, in terms of a fixed array of natural resources each finite in magnitude. To the bestialist, the essential struggle is a competitive struggle for such fixed natural resources — mineral resources plus looting of agriculture and forestry in a fixed mode of exploitation.

This bestialist outlook is the characteristic of all the notable empires. China and India stank in yin-yang cycles of bestiality for centuries. Babylon, Persia, Hellenic culture, the Roman Empire, and the British Empire are the most notable examples of the calamities which bestiality has imposed upon civilization.

Between the two outlooks, the humanist versus the bestialist, there has been and is a struggle for world hegemony. That was the understanding of the innermost circles of the United States's Founding Fathers. The United States was founded by a conspiracy, a collaboration among Americans associated with Benjamin Franklin and European humanists centered around the heirs of Colbert, Descartes and Leibnitz. These humanists fostered the republic's establishment on the Atlantic Coast of North America as a crucial movement in a conspiracy to establish world hegemony for humanist principles. In the view of those who have the knowledge to understand that issue, the same struggle exists today.

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Fools might imagine from that that this struggle for world hegemony means a choice between a humanist empire as against a bestialist empire of the sort agreeable to Mr. Roy Jenkins or kindred Orwellians. That is the crux of the matter to be taken up in connection with Strausz-Hupé's blunderings in *NATO Review*. The humanist conception of world hegemony is based on an absolute rejection of any sort of empire, in favor of a system of humanist republics.

The Notion of the Republic

Throw away the dictionaries and the run of ordinary academic texts and encyclopedias on this matter. Unfortunately, those dubious sources have submitted their glosses on the word 'republic' from ignorant academic babblers, whose assimilation of linguistics is necessarily in direct proportion to their increased imbecility in philosophy, epistemology, and political science.

The development of the term 'republic' has nothing to

do with elections, parliaments, or such differentia. The notion of 'republic' is associated with the notion of natural law as knowable to man in a self-perfecting way. In other words, that humanity, and specific nations of humanity, have proper fundamental interests and obligations as wholes, interests and obligations which exist independently of aggregates of individuals taken one at a time. The state as a whole has a real, knowable interest and obligation which stands above the relatively heteronomic perceptions of interest by any of its citizens.

However, that general interest of the state as a whole is, if properly known, the essential basis for satisfying the interests of its individuals. Thus, in the crudest sort of illustration, an economy in a depression can not satisfy the material requirements of even a majority of its individual citizens. There is no equitable division of a pie which taken as a whole is insufficient to keep all the would-be sharers alive.

The resolution of the specious appearance of contradiction between state and individual interest is that the progress of the state depends upon the contributions of the individual. Therefore, the development and realization of the creative mental and productive powers of the individual are the essential interest of the state. To be exact, it is that sort of causal connection between the reciprocal interests of the individual and state which most efficiently defines the interest of both in a common, coherent single notion. That notion is the essential conception of a republic.

It happens that the kinds of constitutional, institutional forms established by the Founding Fathers represent a rigorous assessment of preceding centuries of European civilization in the light of immediate experience. Hence, provided the intent and content of those institutions is properly apprehended — as the federal courts have lately largely lost the power to comprehend constitutional law — what is properly understood as the U.S. constitutional form of republic is that most agreeable to the purposes of a republic under capitalist conditions of technological progress.

For example, as we have noted in other locations, the experience of the obscene behavior of the Pennsylvania legislature in the matter of the Bank of North America during the Confederation period warned Thomas Paine and other Federalists that a single federal legislative body, as in Pennsylvania, allowed the irrational caprices of a transient majority to do irreparable damage to the interests, and even the integrity, of a state. It was necessary to provide impediments to the will of a current majority opinion, so that the commitment of forebears and the interests of posterity might be brought efficiently to bear to prevent temporary passions from destroying the republic.

How a republic ought to evolve, what are the best choices of institutions, should always be a concrete question, and an important one, but the forms most agreeable to a particular case are not invariant qualities of a republic as such. They are means adopted for achieving the purpose of a republic. The notion of the

republic is more fundamental.

As the notion of a republic is inseparable from the notion of technological progress, the wealth and power of a particular republic does not depend so much on natural resources as technological progress. Because the citizens of such a republic have greater productive powers than those of more backward nations, their influence tends to be hegemonic. This potentiality demands, of course, that republics committed to those same principles be aggregately a sufficient power in the world to defeat combinations of antirepublican force otherwise afoot.

The most noted Renaissance figures attempting to solve the problem of a republican world order are Dante Alighieri (*de Monarchia*), Cardinal Nicholas of Cusa (*Concordancia Catholica* and other relevant writings), and Erasmus of Rotterdam and his followers. Prior to John Milton's and allied efforts to develop non-monarchical alternatives for republics, Cusa's work is probably the most important, both for its profundity and for its awesome influence among leading thinkers into the 17th century. Cusa is important otherwise because his was the first notable effort to define the existence of national republics within a humanist world secular order. Out of this line of humanist thought emerged the effort to conceptualize a system of national republics bound together by a community of humanist principle.

In general, in a world order dominated by humanist republics in the balance of power, there is no purpose nor advantage in empires.

The point is most directly illustrated today by noting that no nation is presently large enough to contain within its borders all the kinds of industries it requires to produce the consumer and capital goods of modern culture and technology. This is further well illustrated by contrasting the McNamara policies for the World Bank, or the closely related colonialist doctrine euphemistically cloaked under the name of the "Common Fund," with the kind of world order and power relations arising in a policy of technologically vectored industrial and agricultural expansion in the developing sector.

In the latter case, the developing world sorely needs the high-technology exports of the United States, Western Europe, and Japan. If a concert of developing nations were to not only reject such relationship, but attempt to replay the OPEC folly with "Common Funds" swindles, the industrialized nations would find massive factions within the developing nations which would overthrow any petty-barbarian government adhering to a "Common Fund" or related policy. (Would we foster such corrections? We should and would! However, we would gain nothing and lose much by dabbling in imperial or satrapal arrangements).

However, if a government attempts, as Britain did and as Jenkins et al. still propose to do, to subject the developing sector to bucolic economic imbecility, and to regard control of the revenues from a fixed order of natural resources as the ruling determination of wealth among nations, then suppression of impulses to technological progress in those nations becomes a matter of imperial urgency, and a source of bitter competition among nations sharing such imperialist follies.

In the case of Strausz-Hupé's cited article, he consistently connects his proposal for a new, NATO-ruled world imperialist order with a bestialist's physiocratic doctrine in which natural resources are regarded as the fixed, fundamental form of wealth. On that account, not only are Strausz-Hupé's proposals the most deadly sort of nonsense — imminently radioactive nonsense — but they represent the sort of muddleheadedness which must be extirpated from United States foreign policy formulations if vital U.S. interests are to be served.

The Warburg Legacy

The crises building up in the United States from 1877 into the devastating 1905-1907 crisis objectively demanded a prompt return to the national banking principles which had proven themselves so successful under Hamilton and Biddle, and which had been employed, at least in thrust, in the most crucial aspects Abraham Lincoln's Administration. Instead, interests gathered around Warburg and his protégés Colonel House and Bernard Baruch preempted the impulse for a national banking approach by introducing a Federal Reserve System based on the British monetarist model.

This misfortune was succeeded by Baruch's key role in developing the war-reparations features of the Versailles Treaty on behalf of a Warburg ("Daddy Warbucks") constellation of Anglo-American investment bankers and their French dupes. The same Baruch was the guiding influence behind the proposal known more popularly as the "Morgenthau Plan" for reducing postwar Germany to a vastly depopulated pastoral obscurity, until wiser influences prompted him to back away from that conception somewhat. The same Baruch was the author of the swindle known as the "Baruch Plan" for control of nuclear technology at the close of World War II.

A myth concerning nuclear technology has become so enshrined in official U.S. mythology that an interpolated comment is wanted here.

The supporters of the Baruch Plan argued that the Soviets (by 1943-1944 already the intended adversary among British and connected U.S. circles) would be incapable of replicating the results of the Manhattan Project for 10, or perhaps 20, years. Later, as the Soviets developed a nuclear bomb within several years after the war, and developed an operational hydrogen bomb before the United States, the myths were circulated that either Soviet spies had stolen "the secret" or that "captured German scientists" had worked the miracle. The fact of the matter was that Soviet work on nuclear energy was under way during the 1920s, under the leadership of one of the most qualified scientists in the world, Vernadsky, an associate of the Pasteur Institute, where he had been associated with Pasteur's heirs, the Curies. Most of the facts relevant to that point were variously remembered or belatedly discovered by European and North American specialists after Sputnik. However, the basic facts were knowable during the 1940s.

During the 1947 period that the Baruch Plan was much discussed, it was argued by others of us — this was my own first significant postwar advocacy of that time — that the establishment of agreements devoting finite fissionable resources and their processing for nuclear

energy projects (e.g. Eisenhower's "Atoms for Peace") was the obvious alternative to Baruch's nonsense. Subsequent historical investigations would have shown that Baruch was not himself seriously persuaded that his efforts would prevent the Soviets building a nuclear bomb — all his available specialist advisors would, in majority, have advised him that he had no means to prevent such an early development one way or the other. Baruch's plan was determined to prevent the development of nuclear energy-production as a new energy source.

This point of view was not new to Baruch. All his public life, Baruch was a wild-eyed monetarist physiocrat, who applied that physiocratic ideology to nuclear energy. He foresaw nuclear energy as danger to the ability of his circle of investment banks to control the world economy through extending their control over world petroleum marketing. In fact, James Schlesinger's proposed energy policy is nothing but Baruch extended to the point of ultimate absurdity.

Baruch and Schlesinger represent an outlook which has been the consistent — bestialist, to be exact — policy of a circle of Anglo-American investment bankers and their social-democratic and liberal political allies throughout this century. Theirs is essentially a Malthusian policy, a policy of holding back technological progress, in order to use investment bankers' control of the marketing of natural resources on the world market as a means for maintaining and enhancing their world power at the expense of the material well-being of humanity in general. In other words, this is the old colonialist policy of the British imperialists in a slightly altered outward political form. It is the policy of a group of Anglo-American investment bankers which to this day uses the old British establishment, and that establishment's vast intelligence apparatus-networks throughout the world, as the political reference point of its global developments.

Heretofore, Malthusian and neo-Malthusian policies such as those axiomatically embedded in the Baruch Plan have not proposed a total obstruction of technological progress. What has been characteristic, represented in the extreme by the Nazis' Schachtian variant on Keynesian policies, is the policy of looting large areas held in relative backwardness to prop up a narrow, "privileged" area of industrial and agricultural development.

Eighteenth century England is illustrative of this. British policy was to hold back technological progress and industrial development in England; any contrary perception or report is outright nonsense — as the

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emigration of skilled British workers to expanding French industries illustrates. However, while working to abort its own internal development, England sought to maintain industrial hegemony over the rest of the world by enforcing relative backwardness in "competing regions."

The same British principle nearly wrecked the prospects for SALT II negotiations during the early months of the Carter Administration. Ironically, at the same time that the London International Institute for Strategic Studies was coordinating vicious slanders against Major General George Keegan, Paul Nitze and others were in fact working strenuously to bluff the Soviets into abandoning the very sort of advanced, strategically relevant researches which General Keegan had reported. The point was that the NATO countries could not proceed with slashing research and development, deindustrialization, and the "Schlesinger energy package" as long as the Soviets were proceeding on a high-technology research and development orientation. Therefore, demanding that the Soviets abandon the advanced edge of their own research and development was seen as indispensable to instituting a Malthusian policy in the advanced capitalist nations.

Historically, British Malthusian policy has converged on actual or implicit cartelization. This aims at limited industrial and related progress in some designated sectors, to the accompaniment of a virtual triaging of industrial and related development outside the bounds of the cartel. While the cartel or its equivalent is predominantly governed by an antitechnological policy, at the same time it accepts limited productive capital-formation and some technological progress to the extent that technological industrial agricultural hegemony demand. In other words, a pragmatic attitude toward technological progress within a dominant Malthusian policy for the world as a whole.

The general failure to understand this British policy has been aggravated by the prevailing social-democratic and communist doctrines concerning imperialism. Lenin, duped by Hilferding and Hobson, among notable influences to that effect, was nonsensical by contrast with Rosa Luxemburg on this point.

As the case of the United States' development ought to suggest to any sensible analyst, political hegemony over and import of capital into colonial and semicolonial regions by industrialized "metropolitan" sectors does not in any way lead in and of itself to relative backwardness in such regions; rather, quite the opposite. This, the backwardness, contrary to Lenin, must be derived from some other element than hegemony and import of capital.

Essentially, Britain was aided mightily in maintaining relative backwardness in Britain itself by a policy of savage "cultural relativism" in the colonial and semicolonial sector. That "cultural relativist" policy was maintained both by political means and by imposing upon the victims a massive debt structure, through which looting of marginal revenues from primary commodity extraction, production, and — above all — marketing provided the home base with massive added revenues at the expense of the real economy.

This latter point is underlined by developing sector politics today. As developing sector governments reject

technological progress in favor of "native traditions" and such ideologies, those governments are aligned with the City of London, aligned away from the prodevelopment perspectives of the nonaligned group at Colombo, Sri Lanka. In reality, those developing sector forces which support the UNCTAD proposals of Gamani Correia or the "Common Fund" nonsense are de facto agents of British imperialism — and they ought to be told so with most undiplomatic frankness. The characteristic impulse of the labor movements and industrialist forces throughout the developing sector is, and has been, technological progress and industrial development.

The significance of nuclear energy development has been, since the end of World War II, that not only does nuclear development weaken the energy-marketing oligopoly, but it represents the spearhead of a whole range of technological breakthroughs, which would once and for all end the ability of the monetarist investment banking circles of London and Manhattan to keep the world on the edge of recurring depressions and general backwardness.

The arguments of the Naderites and their apologists are efficient illustration of the point. James Schlesinger has argued that threatened shortages of energy, including dangers of new OPEC embargoes, require drastic measures of "energy conservation." When it is proposed, counter to this, that therefore the United States and other countries ought to press ahead with development of the more efficient nuclear energy programs, the argument is made that such programs would undermine "energy conservation." Is anyone stupid enough to take the "energy conservation" argument against nuclear power seriously?

The same forces argue that the rising price of petroleum imports requires the United States to cut back energy use in the interest of the balance of payments and the economy generally. They propose to wipe out whole sectors of industry, to drive much of the world back to a vastly reduced, labor-intensive form of production, as a way of solving the inadequate production of wealth reflected in the sagging balance of payments.

Such arguments as we have cited show that the proponents of antinuclear "energy conservation" are either outright liars or cretins. If liars, which all informed spokesmen must be, then their worse-than-silly arguments must be judged as mere demagoguery, a disguise for some other motivation. The Baruch Plan points to that real motivation, as does the foolish chatter concerning "the dangers of nuclear proliferation."

What sort of a world are such lunatics proposing to shape, and by what means do they propose to establish such an Orwellian nightmare order? Strauss-Hupé indicates the answer to those queries.

What Strauss-Hupe Proposes

The following is a fair summary of the relevant aspects of Strauss-Hupé's "Nato in Midstream."

He argues against the assumption that NATO is properly viewed as a bulwark against Soviet aggression into Western Europe. He more or less correctly reports that Soviet Clausewitzian strategy toward Western Europe is a war-avoidance posture, necessarily dependent upon a credible war-fighting capability. He

proposes that the Soviet goal in Europe is that of securing President Charles de Gaulle's "Europe from the Atlantic to the Urals" policy, a sphere of economic cooperation and mutual political security which nullifies NATO. That latter observation has the advantage of at least some resemblance to the truth; it represents one option the Soviet leadership would seriously consider under certain circumstances.

He argues that the Soviet long-term strategic perspective is identical with the official Peking line, of an erosive wave of anticapitalist developments in the southern hemisphere which have the effect of the "countryside encircling the cities," the cities being the advanced capitalist countries.

Within that perceptual framework, Strauss-Hupé proposes that the Soviets have in fact gained much in their progress toward "encirclement of the cities." NATO, he proposes, must qualitatively shift its purpose and efforts to counter "the true purpose" of the Soviet thrust.

He does not develop his proposal beyond that, but rather proposes what is in effect a new charter conference for NATO. What he is proposing, in fact, is well known: a new series of developing sector treaty organizations such as the still-in-progress South Atlantic Treaty Organization (SATO) and the recent, abortive effort to reconstitute CENTO.

Within this outline, he includes two elements of primary relevance for understanding his strategic outlook as a whole. First, he emphasizes the principle of control of primary commodities marketing as the crucial feature of his overall policy. Secondly, he emphasizes the importance of the social-democratic "left" and its Eurocommunist subsidiaries as key to international management of the majority of advanced capitalist countries. In short, the anti-nuclear energy reforms which propose to contract industry in favor of a "labor-intensive" emphasis, and which pursue "quality of life" and "structural reform" means to institute such an Orwellian reformist order of bucolic economic imbecility.

It is notable that a former U.S. Ambassador, Strauss-Hupé, proposes exactly that policy which forces in the City of London are following in their present efforts to bankrupt the U.S. economy (with Saudi help) and to establish City of London hegemony over most of the world's economy.

It is notable that Strauss-Hupé's proposed foreign policy for the USA, West Germany, Italy, and other relevant nations flows from a definition of vital interests based on a large-scale deindustrialization of those nations. Like the old Roman Empire, Strauss-Hupé's NATO would be a society rotting at home, seeking to preserve that order at home by savage looting of the remainder of the world.

He is also proposing, whether or not he is sensible of that fact, an early general war. The combination of advanced capitalist nations driven desperate by neo-Schachtian internal erosion with an aggressive NATO-linked encirclement of the Warsaw Pact is a circumstance which does nothing but drive the Warsaw Pact toward an otherwise avoidable general war.

That was, of course, the growing danger during the period Strauss-Hupé was (until 1977) U.S. permanent

representative to NATO, and was the continuing, deadly thrust of affairs until the recent summer. The Carter-Gromyko draft, in a climate of efforts by leaders of key nations of continental Western Europe, has momentarily

Like the old Roman Empire, Strauss-Hupé's NATO would be a society rotting at home, seeking to preserve that order at home by savage looting of the remainder of the world.

pushed that ugly menace a bit into the background. If the forces allied with Georgii Arbatov in the Soviet Union are defeated in the present factional affray in that nation, the possibilities of war-avoidance from the Soviet side are vastly improved.

What Strauss-Hupé is now proposing is a resumption of the same foolish strategy from which we are presently in the process of escaping. This folly on his part does not indicate that Strauss-Hupé is some uninformed fool. It reflects what is otherwise shown in his article; he is stuck in that same wretched British-ideological misperception of an Anglo-American alliance which Warburg and Bernard Baruch formerly represented. He cannot get out of the British ideological mindset, the Physiocratic, Malthusian dreams of a Pax Anglo-Americana. I do not suggest that Strauss-Hupé desires an early general war. He is merely so helplessly attached to a British ideology, which in itself leads toward war these days, that he refuses to consider seriously any consequences which expose the folly of British ideology itself.

The End of Imperial Delusions

The United States needs no empire, no "American Century." We require only an updated version of the policy of the Founding Fathers. We have established in our nation a skilled and semiskilled labor force which represents labor of the greatest productive power on this globe today. Provided we develop the capital formation in basic industry to match that productive power of labor, and foster scientific and technological progress in education and capital-formation policies, the United States has not only awesome economic power, but the potentiality of growth rates in industrial and agricultural output beyond the imagination of most of our citizens at this moment. That is our national power, which we must develop and properly exert. If we proceed thus, we can laugh at the delusions of those who would build empires.

There are nations in the world, notably France, West Germany and Japan, which are the United States' immediate allies for a proper policy of global, high-technology-oriented economic growth in industrial and agricultural expansion. That global policy, firmly pur-

sued by those forces, coincides with the fundamental interests of the Comecon nations, so that those nations are obliged in their self-interests to cooperate with us in pursuit of such global policies. With that correlation of forces among sovereign republics allied around common global economic-development policy, there is no force in the world which could resist that policy.

Based on the hunger of nations for the high-technology exports the United States has unmatched potential for producing, we represent a force capable of ensuring our vital interest on a global scale without any foolish dabbling in imperialist delusions.

For the immediate period ahead, the perceived potential-adversary relationship between NATO and the Warsaw Pact will persist. The issue of "deterrence" will persist. This will cost both NATO and Warsaw Pact nations valuable economic resources for military expenditures we all wish might be expended otherwise. It would be simplistic to imagine that that institutionalized problem could be swept away by mere exertion of rhetorical will. NATO or something like it will probably persist. It will evaporate only when acceptable institutional alternatives have evolved under circumstances of global economic cooperation and matching, mutually credible political-security agreements among the principal powers.

However, British actions during 1977 demand an immediate basic change in NATO...and within the EEC as well. It was Britain's intelligence establishment that plotted and deployed in the Middle East to the purpose of consolidating control of Saudi policy by a faction committed to alliance with the City of London. This was against continental Western Europe, against the vital interests of developing nations generally, and against the vital interests of the United States. It was British intelligence which most immediately directs the current wave of international terrorism, in concert with British-influenced circles in Peking. Britain must therefore undergo a diminution of its role in correspondence with the reality of the bankruptcy and the mismanagement of the internal British economy.

NATO has not been a trans-Atlantic alliance, but has been in fact a form of Anglo-American political rule over continental Western Europe. This was understood by President Charles de Gaulle, who withdrew France from NATO while preserving France's alliance with the United States on that account. It was for the same reason that de Gaulle blocked Britain's entry into the EEC, and enjoyed support from his ally, West Germany's Konrad Adenauer, in that policy. It is Washington and London which run NATO, with other member-nations degraded to very, very junior partner status in matters of policy making.

Britain is not the United States' ally, but our principal liability. Our immediate advanced sector allies are France, West Germany, and Japan, and — once that nation is freed from internal British controls — Italy. It is those Organization of Economic Cooperation and Development (OECD) nations whose institutionalized vital interests bring their policies into correspondence in principle with self-interested U.S. policies. That is the nature of the shift which must immediately develop in all relevant features of U.S. policy.

The SATO Example

The folly of Strauss-Hupé's policies is efficiently illustrated by examining the current crisis in southern Africa, one leg of the proposed SATO arrangements.

The Republic of South Africa is properly perceived as the mediator of high-technology-oriented economic development throughout the region. This requires, of course, that the nation's internal and external policies be brought into agreement with equitable economic development treaties with its predominantly black neighbors, and the issue of Namibia resolved in that context. Contrary to what the *Washington Post* and *London Times* would have one believe, the industrialist factions in the government of the Republic of South Africa have repeatedly attempted to move in that direction. To our direct knowledge, at several points, just as the Republic of South Africa was about to enter into serious discussions (under some form or another) with representatives of the black "front-line states," the London crew and its Institute for Policy Studies allies have activated some destabilization in southern Africa for the purpose of disrupting such negotiations.

Granted, the British MI-6 agents running about southern Africa as putative "black consciousness" leaders feed upon genuine issues of oppression. A more instructive picture is obtained if one considers the policies which they propose as "solutions" to black oppression. What they propose are the genocidal policies (against blacks) of the London investment banks and Robert McNamara's World Bank. Their objective is not to aid oppressed blacks, but to dupe blacks into aiding in the imposition of World Bank policies which mean, directly, genocidal hunger and slave labor for the black population.

A solution to the problem means that the Republic of South Africa must negotiate through (most probably) Mozambique, and must establish both detente and economic cooperation with Mozambique and Angola. In that case, a treaty-negotiating commission initiated with participation of the Republic of South Africa, Mozambique, and Angola will lead toward rapid and substantial improvements in all matters throughout southern Africa — provided that continental Europe and the United

States support this effort.

The role of France and the United States, who should mediate OECD support, would be to kick Britain out of Africa to all significant effect, and to participate indirectly in the negotiations in something more than an *amicus curiae* fashion. Our role is to offer to participate in establishing a regional development bank, or an equivalent institution, through which to foster external trade and related internal development for the region as a whole.

With that approach, all the problems of southern Africa are susceptible of rapid solution in principle and credible progress in fact.

On the other side of the SATO-designated region, the Rio de la Plata project, providing rapid industrial and agricultural development in a region including north Argentina, Uruguay and southern Brazil, is the vehicle for solving the principal threats to political instability in that region.

The role of the United States for the Rio de la Plata is the same in principle as for southern Africa. Establish a regional development bank outside the area of existing debt as the vehicle for fostering external trade and development of industry and agriculture relevant to external trade.

The same approach is appropriate to Central America, to the Middle East, or to India. Concentrate the available and potential credit of the world for hard-commodity short-term and long-term loans and investments, in development projects which expand industrial and agricultural production by emphasizing high-technology and fostering rapid increase in the productive powers of labor.

By activating in this way the vital interests of sovereign republics in perpetuating high-technology-vectored industrial and agricultural development, the economic power of the United States is employed to establish spreading areas of community of principle, along modern versions of the conception adopted by our own Founding Fathers.

If the economic power of the United States is properly used in alliance with a kernel of OECD countries led by France, West Germany and Japan, we rightly laugh at the schemes of a NATO Pax Britannica being concocted in the fantasy pits of London.

All Out Battle Over U.S. Foreign Policy

According to reports from Western Europe carried on New York broadcast media Oct. 26, United Nations officials have been told to make preparations for a Geneva conference to negotiate a settlement in the Middle East to begin Dec. 21. The reports followed statements by both U.S. President Carter and Soviet President Brezhnev last week stressing the importance of movement toward

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an early SALT II arms limitation agreement, and at his Oct. 27 press conference, Carter said "within a few weeks we'll have a demonstration of real progress."

These developments indicate that the Carter Administration grouping around former U.S. ambassador

Averell Harriman and his protégés, notably Secretary of State Cyrus Vance, remain in control of American foreign policy at this moment. The Oct. 26 Congressional testimony by Marshall Shulman, special advisor to Vance on Soviet affairs and well-known as a member of the Harriman networks, exemplifies their approach to the Soviets. The notably positive thrust of Shulman's remarks was his emphasis on the "overlapping interests" of the U.S. and USSR; his characterization of the Soviet Union as a "global power" and acceptance of Soviet influence and interest in the Middle East as a fact of life; and his stress on improving trade and economic cooperation with the Soviets. (See excerpts below.)

The impetus for this reorientation in American foreign policy continues to come from Western Europe. As U.S. Labor Party chairman Lyndon H. LaRouche, Jr. emphasized in an Oct. 25 press release, "The Barre

'Sure Schlesinger Knows About It'

The following is an interview with an executive of the Coalition for a Democratic Majority:

Q: Why has the Coalition been revived?

A: The coalition existed between 1972 and 1976. It came into existence when Jackson was contesting McGovern. When Carter was nominated we went into abeyance. We said we would wait and see what the new Administration was like. In July through December we had closed our office, put it into cold storage. In the spring we decided to revive it. We became increasingly alarmed over the Administration's foreign policy. We had lobbied for every cabinet appointment and all other appointments but got no one in. Schlesinger of course we were fully behind but we wanted him to be Defense Secretary. Instead the spokesmen for the McGovern people, all the people who used to work for him, were appointed.

Q: Whom do you mean?

A: Well people like Holbrooke, Gelb, Duffy, Andrew Young, Marshal Shulman, David Aaron, Warnke, and Lake. McGovern himself said after the appointments that he would have made the same ones.

Q: Who is on your board?

A: Well we spent a considerable effort to get it going. Jackson and Moynihan agreed to be the honorary co-chairmen, and of course Ben Wattenberg, a longtime advisor to Hubert Humphrey heads it. The other vice-chairmen are Congressmen Jim Wright, and Tom Foley, Admiral Zumwalt, Albert Shanker, Bayard Rustin, Max Kampelman, Seymour Martin Lipset, Sol Chaitkin of the Gar-

ment Workers, Martin Ward of the Plumbers, and of course Eugene Rostow.

Q: Was Schlesinger involved in reforming the committee, since of course he is a longtime associate of the coalition?

A: Sure Schlesinger knows about the formation of the coalition. He would have been directly involved in forming the coalition but at the time he was involved in getting into the government. But others of our group have had direct contact with Schlesinger.

Q: What foreign policies do you disagree with the Administration on and how do you plan to influence the Administration's policies?

A: We are particularly alarmed that in the recent weeks the Administration is in contrast to their election rhetoric where they had criticized Ford's détente posture. On U.S.-Soviet policy the Administration is moving sharply to a policy of Kissinger and Ford. They have made a rapid retreat on human rights. Warnke and Shulman's policy has won out now. The SALT agreement that was reached was done through a process of concessions by the Administration. We are alarmed at the U.S.-Soviet statement on the Middle East. That gives the Soviets a gift, the gift of a restored role in the Middle East. We are now dealing the Soviets in on another level. Aaron and Lake sold it to Carter by telling him the Jewish lobby would not object as now Carter has gotten the Soviets to endorse Israel. The communiqué is an obstacle to Middle East peace and raises questions about U.S.-Soviet relations. It occurs when we back down on human rights. Many of our people talk with Administration people although they are not swayed. This week we're beginning our pressure with a statement attacking the communiqué.

government (of France) is key to a crucial package of tightly linked issues including SALT, the Middle East, "a European MBFR agreement, and key economic cooperation and mutual political security agreements between Western continental Europe and Eastern Europe" and is "performing a key role in negotiations among the United States, France, West Germany and the Soviet leadership" directed toward that end.

Not Solved Yet

The successful consummation of these foreign policy initiatives, however, remains anything but a foregone conclusion; forces grouped around Energy Secretary James Schlesinger and Treasury Secretary Werner Blumenthal in the Carter Cabinet and Sen. Henry Jackson and Jacob Javits in the Congress are acting to sabotage what is still — in the absence of any decisive global-strategic shift by the Administration on the anti-nuclear and hyper-inflationary economic austerity policies which have been bitterly resisted by France and West Germany in particular — only a significant opening toward a viable U.S. foreign policy.

Javits' astonishing and inflammatory remark last week that "There are circumstances which could compel Israel to stand against a Mideast peace policy of President Carter on grounds of Israel's overriding national interest in her own survival" illustrates the breadth and openness of wrecking operations conducted through the U.S. "Jewish Lobby" in particular. After a lengthy briefing from Vance on the Administration's Mideast policy late last week, Rabbi Alexander Schindler, the leading figure in the "Jewish Lobby," accused Vance of seeking to bring "the peace of death" for Israel.

The problem is further complicated by the repeated attacks on the President by spokesmen for the Republican National Committee on the grounds that the Soviet Union must be kept out of Middle East negotiations, including last week's attack by House Republican Minority Leader John Rhodes. In his statement, LaRouche charged that such attacks were contributing to the success of British economic warfare operations against the United States centered around a City of London grab for Arab petrodollars. "We are not suggesting that (such persons) are knowledgeably

aiding the United States' enemy, London," said LaRouche. "They are merely being very, very dumb, and very pliable," in the hands of such people as Schlesinger, Jackson, and the Humphrey-Fabian machine within the Democratic Party and the networks of William F. Buckley and his protégé Richard Viguerie in Republican and conservative circles.

The role of Schlesinger and Jackson in these wrecking operations is primary. Schlesinger's fury at Carter's Mideast initiative is an open secret in Washington, and on Oct. 27 syndicated columnists Evans and Novak reported that the Coalition for a Democratic Majority, organizationally coextensive with the notorious Committee on the Present Danger in which Schlesinger played a key "founding father" role during 1976, was being reconstituted under the leadership of Senators Jackson and Moynihan, with an executive board which constitutes a "who's who" of the CPD-Social Democrats USA apparatus, again, virtually identical with the "Jewish Lobby." An interview with an executive from the Coalition (see below) confirmed that Schlesinger is fully implicated in this operation against his own Administration.

As for Jackson, in addition to his chores for the Coalition, he is also positioning himself to prevent the ratification of any SALT treaty by the Senate. Jackson's effort was noted on the front page of the *Baltimore Sun* this week, in an article which warned the Administration that its failure to establish a credible Senate spokesman on the SALT issue could lead to a successful hatchet-job on the treaty by Jackson. (See box.) On Oct. 28, the *Washington Post*, closely linked to the British-connected investment bank Lazard Freres and now the established mouthpiece for assaults against Administration foreign policy, ballyhooed the coming Jackson assault on its front page.

Despite the general anti-Administration, pro-British tenor of the New York Times and Washington Post, support for the Mideast, SALT, and related initiatives in the USA Eastern Establishment was visible last week in several columns and articles, the most notable of these by syndicated columnist Joseph Kraft, advising "an end to Congressional foreign policy" conducted as a wrecking operation against the Presidency.

State Department Official:

Pinpoints U.S.-Soviet Common Interests

Excerpts from a statement by Marshall D. Shulman, Special Advisor to the Secretary of State on Soviet Affairs, before the House Subcommittee on Europe and the Middle East, Oct. 26, 1977.

...We start from a frank recognition that the Soviet-American relationship at this period in history is a competitive one, based upon quite different views of the world and conflicting long-term aims; at the same time, it is also true that these two countries, as inhabitants of the same planet, have many overlapping interests. Common sense dictates that we should, while advancing our own interests and purposes energetically, seek to

regulate the competitive aspects of the relationship to reduce the danger of war and at the same time to enlarge the area of cooperation where our interests are not in conflict....

Discussion of Current Issues

1. *SALT*...And yet, despite the complexity of the technical aspects of SALT, the basic policy questions involved come down to a matter of common sense and judgment, on which the President, the Congress, and an informed public can base their decisions....

Within the past month, during the visit of the Soviet Foreign Minister, Mr. Gromyko, to Washington, con-

siderable progress was made in breaking through issues that had been deadlocked for a long time....

...progress in SALT would represent not only a significant improvement in the most important single aspect of Soviet-American relations, but an advance in the most fundamental issue affecting international peace and security.

3. *Areas of Political Competition.*

...For thirty years, through four Arab-Israeli conflicts, Soviet and American interests have intersected in the Middle East. While Soviet influence in the area has had its ups and downs, it is obvious that the area is of considerable importance to the Soviet Union, and that a constructive rather than an obstructive role by the Soviet Union would be an important element in any effort to reduce the danger of another Middle Eastern war.

In the current situation, we have been able to work both with Israel and the Arab parties in starting the process toward a settlement, but to achieve a comprehensive and durable solution requires direct negotiations between the parties. This can best be achieved, we believe, under the auspices of a Geneva Conference, with the cooperation and support of its two co-chairmen, the United States and the Soviet Union.

It should be made clear beyond any doubt that it was this objective that was the sole motivation in our joining with the Soviets in the recent Soviet-American statement on the Middle East during the visit of Foreign Minister Gromyko to the United States. It would be an error to believe that the statement was inspired by any desire to use the Middle East as a vehicle for improving United States-Soviet relations....

4. *Economic Relations.* The development of economic relations is clearly an important component of the total relationship between the United States and the Soviet Union. In recent years, the Soviet Union has indicated an active interest in expanding its importation of agricultural products, consumer goods, manufactured goods, and advanced technology. It would also like to expand its export of manufactured goods as well as raw materials to Western markets. The development of this trade with the United States and other advanced industrial nations can be a stabilizing factor in Soviet policy toward the world.

There are also areas in which Soviet and U.S. economic policies are affected by and have a critical impact on the rest of the world. Foremost among these are international grain trade and energy problems. The cooperation of the Soviet Union in the orderly allocation and

handling of food reserves as well as the supply and availability of oil will be increasingly important.

Questions have been raised about the balance of political risks and benefits to the United States that need to be weighed in determining a national policy on the expansion of economic relations with the Soviet Union. Clearly, a period of national discussion and consultations with the Congress lie before us as we seek to clarify such issues as the extension of Most Favored Nation status to the Soviet Union, what criteria should govern the extension of credits through the Export-Import Bank, what criteria should govern the transfer of technology, to what extent we should participate in energy and other resource development projects, etc. We shall also have to address the question of how the necessary degree of coordination can be achieved between the government and the private sector, and between the United States and its allies.

It has been the declared policy of this government that it looks toward an improvement in economic relations between the Soviet Union and the United States as conditions make this possible, and in my view it would be desirable to move in this direction by prompt and measured steps. The concrete measures by which this policy can be implemented will be determined on the basis of consultations with the Congress.

...6. *Human Rights....*

We do not see this objective as inconsistent with the desire to work toward reduced international tension and improved Soviet-American relations; on the contrary, we believe that in the long run the reduction of international tension can contribute to an easing of the internal pressures which restrict the fullest realization of the creative potential of men and women everywhere.

External Factors

Among other external factors, perhaps the most important for its influence on the Soviet-American relationship is the capability of the international community to absorb the thrust of the Soviet Union toward expanding its political influence and establishing itself as a global power. It is a characteristic mark of this period in history that the rise of the Soviet Union as a world power coincides with many other profound transformations in the international order. The Soviet Union seems not to have fully perceived how much the revolutionary transformations of this age have moved from the patterns of traditional Marxist-Leninist thought, and it is not clear how Soviet aspirations will adjust to the new patterns.

Deal Struck On Energy Bill As Labor, Industry Discontent Rises

After strenuous efforts, the White House has apparently succeeded in striking a compromise with Congress on the zero-growth energy legislation which President Carter under the influence of Energy Secretary James Schlesinger submitted to Congress last April. Although the details of the compromise remain to

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be worked out in conference committee sessions between the House and Senate which may not conclude for several weeks, it now seems likely that the result will be an incompetent bill whose only virtue is that it will do less damage to the economy than Schlesinger's original package. On Capitol Hill the mood is one of opportunism, cupidity and a frank desire to get out of town; in the White House, a desperation fed by the liberal media who have sold Carter the proposition he must get a bill through to "save face."

The mood in Washington is not the mood of the country; industry and labor are ripe for an alliance on behalf of increased industrial production and a quick reversal of the depression-induced decline in living standards. Bitter attacks on Schlesinger from former Ford Administration official William Clements and industrialist David Packard last week (see box) signalled that powerful southern and southwestern oil and aerospace interests are moving to force Carter to get rid of the nation's number one industrial saboteur; Clements, in fact, predicted his ouster.

Former Texas Governor and Nixon Administration Treasury Secretary John Connally, now on a non-stop nationwide speaking tour to raise a \$2 million war chest for Republican candidates and enhance his own prospects for the Presidency in 1980, charged in a speech in Indianapolis last week that Carter has "turned his back on technical advances...the (nuclear) breeder reactor, hydrogen fusion, innovations in and the use of the nation's coal supply" which provide a high-technology solution to U.S. and global energy needs (see box).

Indicating that New York business circles with strong connections to the Republican party are determined to force a substantial shift in the Administration's no-growth economic policies before 1980, the *Wall Street Journal* asked in an editorial "what happens to the Republic?" if the opposition contents itself with gloating about future victories at the polls. The *Journal* advised Carter, "instead of trying to sell the people what they obviously do not want, get back to finding out what it is they do want" (see box).

On the labor front, the leading development was Teamster President Frank Fitzsimmons' fiery speech to a southern regional Teamster conference in Dallas. Fitzsimmons, who presides over the most powerful trade union machine in the U.S., dramatically attacked the entire spectrum of British-style fabian subversion of the U.S. labor movement. He identified the Stern Fund, the Kaplan Foundation, the Rockefeller Family Fund, the phony PROD "rank and file" counterinsurgency operation in his union — and the same network of liberal intellectuals, mass media, and law firms identified by the

'Schlesinger — Brains Of A Goose'

Text of Dallas Times Herald article reprinted in Cleveland Plain Dealer Mon. Oct. 24.

Carter's attack on the American Petroleum industry was an ill-advised shot against business that could impair the economy and alienate foreign allies, a former high official said Saturday. William P. Clements Jr., former Deputy Defense Secretary who left office in January, said Carter is surrounded by "inexperienced incompetents" in the energy arena starting with Schlesinger. Clements identified Schlesinger, his former boss in the Defense Department, as the orchestrator of Carter's attacks and called Schlesinger "a bureaucratic opportunist and intellectually dishonest person. In my opinion Mr. Carter will decide before very long that he's had all of Mr. Schlesinger he can stand. My two and a half years with Schlesinger in the Defense Department convinces me he knows absolutely nothing about the free-enterprise business system and what is required to encourage private

capital. To the contrary, Mr. Schlesinger is anti-business, in favor of more government and bureaucracy, and has on several occasions endorsed Sen. Henry Jackson's theory of a national oil company."

Clements, chairman of the world's largest oil-rigging company, the Dallas-based SedCo, said "If Mr. Carter has intentionally sought to recruit the most anti-business, anti-petroleum-industry man in the country, he couldn't have better succeeded than by bringing Schlesinger into the Administration."

A Carter aide said Saturday that the White House won't "dignify Clements' intemperate attack with a response." Clements' attacks came shortly after the *Wall Street Journal* reported that another former Deputy Defense Secretary who preceded Clements in the Pentagon, David Packard, now chairman of Hewlett-Packard, told the Business Council that Carter's energy program is a "disaster" and that Schlesinger "doesn't have the brains God granted a goose about the way the economic system is supposed to work."

Strauss — 'Preferred Policy And Practical Policy'

The following is an interview with high-level staff members in the office of Robert S. Strauss, former chairman of the Democratic National Committee and presently Carter's Special Representative for Trade Negotiations.

Q: I would like you, first, to comment for *EIR* on a statement printed in the *Cleveland Plain Dealer* and the *Dallas Times Herald* by William Clements, former Deputy of Defense in the Ford Administration attacking James Schlesinger.

A: Go ahead. I want to hear it.

Q: (Article read in full.)

A: (Pause.) One thing about it doesn't hold up. You see, you have to get this straight. Carter likes Schlesinger personally. Carter's not close to very many people in the Administration. But he likes Schlesinger and, you know, he feels comfortable with him. Meets with him for several hours every day discussing energy, foreign policy, etc. He's personally close to him and, in this respect, it is difficult for others to get close to him... This is the basic problem..., well, that's the situation."

Q: What role is Strauss playing in the Administration (reference made here to the front page article in the *New York Times* of Sunday, Oct. 23 entitled "Strauss Emerging As Key Carter Aide.")?

A: Strauss is playing the role he's best at — the "honest broker" — getting all side to compromise.

Q: You mean on the Carter energy package and on foreign policy?

A: On energy, yes. Strauss is using his leverage to find the grounds for compatibility on both sides.

Q: So Carter's going to compromise with Long.

A: I wouldn't say that and Carter wouldn't announce that certainly. But, really, there is going to have to be a compromise. But I won't say what it is. We're going to wait, of course, until the Hill decides and then we'll announce what we are going to do.

Journal as the authors of both the Administration's no-energy program and the destabilization of Carter — as engaged in a conspiracy against the United Steel Workers (USWA), the United Mine Workers (UMW) and the Teamsters (IBT).

Fitzsimmons' remarks (see below) were videotaped for national distribution to Teamster locals, a signal that the union intends a mobilization on the issues he raised.

The U.S. Labor Party is the key mediating force which will bring the labor-industry alliance into being around the key issue of economic program. The party's influence in both sectors is at an all time high. Knowledgeable U.S. circles are fully aware that Connally's public boost for fusion power comes after a four year campaign by the party newspaper, *New Solidarity*, identifying fusion as the long-term solution to global energy needs. Fitzsimmons's charges were originally aired in a Labor

Q: That's a compromise.

A: Well, I'll say this. No one is going home before Christmas saying they won. And nobody's going home saying they lost. That will be the result.

Q: On international policy. Wouldn't you say Carter's policy is irrational and forcing the Europeans, to break with the U.S. and the dollar, because we are asking them to cut back energy and therefore their own development?

A: Well, I don't want to say much on this. But, yes, I would say there is an "apparent contradiction" in Administration policy. We prefer to distinguish it in this way. There's Carter's "preferred policy" and another "practical policy" and we see our job to modify Carter's policy in the direction of a more pragmatic policy. Certainly we don't want to see Europe go under economically and, if you will notice — I don't have the exact dates when he said this — but Carter has made statements recently modifying his stance on the breeder program for Europe. This is beginning to correct the "idealism" which has prevailed on this side of his policy..."

Q: Did you know that there was a meeting of City of London central bankers this week where they discussed raising oil prices and squeezing the U.S. out of the energy market and then reinvesting here in low-technology marginal resources?

A: (Taken aback). No I didn't know it. I can't imagine why they would do this. Anyway I don't know what's going on in Europe and don't want to comment.

Q: Well, you know Felix Rohatyn proposes that OPEC invest in his marginal resources energy development bank scheme...

A: Well, Felix is very clever. He's a creative thinker and will look for ways, as he has in the past, to move petrodollars back to the U.S., but I don't think this scheme will work..."

Party pamphlet, "The Plot to Bust the Teamsters," on sale at the Dallas conference. The pamphlet, over 50,000 copies of which have already been sold, is expected to be printed in a 100,000 run for mass distribution to Teamster locals during the coming week. Now the party is in negotiations with top officials of the United Steel Workers to facilitate mass distribution on a similar scale of the party's program to rebuild the U.S. steel industry, one of whose largest companies Bethlehem Steel, reported the largest quarterly loss ever by a U.S. corporation last week.

Fog Over Washington

The immediate task of the emerging labor-industry alliance will be to sweep away the fog in the nation's capital. Foolish political maneuvering is no substitute for a competent program, as this week's developments

around the energy bill conclusively proved.

Early in the week it became obvious that a deal of sorts between Carter and key congressmen had indeed been consummated, as both the *Baltimore Sun* and *New York Times* touted the emergence of Robert Strauss, former Democratic National Chairman, as the Administration's new backroom power broker who would solve its problems with business, labor and Congress. Strauss's office admitted he was brokering an energy compromise in response to pro-development pressure from Europe and the U.S. in an exclusive interview with *EIR* (see box). The office of Sen. James Abourezk, a leading Democratic liberal who has attempted to keep the Senate version of the bill as close as possible to the original Schlesinger version passed by the House, outlined its substance with respect to the key tax provisions of the bill in another interview presented here.

Led by Senator Henry Jackson, fabian-liberal forces posturing as "defenders of the President's program" then mounted an assault on Senator Russell Long, a conservative southern Democrat with close ties to the oil and gas industry. Long's Finance Committee had earlier rewritten the tax portion of the bill to eliminate the crude oil equalization tax, and a host of other taxes on energy production contained in the Schlesinger version of the bill, and had proposed as Long's preferred solution a large scale Energy Development Corporation to fund high-technology jobs creation. Long had also, however, included in the bill language which in effect authorized him to negotiate a compromise in the conference committee restoring the crude oil equalization tax provided that some of the funds derived from the tax were "plowed back" into energy development.

First Jackson and the liberals moved to knock out the EDC by threatening to trap the entire energy tax bill in a labyrinth of parliamentary procedural objections if it were included. After Long withdrew it, before the bill

Connally Goes After 'Alien Philosophy'

The following are quotations and paraphrased remarks made by Republican presidential contender John Connally during a speech in Indianapolis, Ind. Oct. 25

"The Carter Administration is one of retrenchment and retreat." (Attacks Administration for failing to build the B-1 bomber, endorsing premature withdrawal of U.S. troops from South Korea, and allowing the American Zionist lobby to endanger the success of Mideast peace negotiations.)

"The Carter Administration is negative. The Democratic Party has adopted a negative philosophy, foreign and alien to the people of the United States. Carter has turned his back on technical advances ... in weaponry, developing the (nuclear) breeder reactor, hydrogen fusion, and (use of) the nation's coal supply....

The Democratic Party has adopted a notion that we've seen everything, done everything, there are no new rivers to cross, no new worlds to conquer..."

'Carter Will Compromise'

Interview with a staff member in the office of Senator James Abourezk (D-SD).

"Here's what's going to happen on the energy legislation. This is not simply a prediction based on flimsy evidence or rumors. Everything stacks up as following — Carter's behavior, the Senate and house conferees' behavior. Carter will compromise and we don't like it. Abourezk prefers no bill rather than this compromise. But Carter wants a bill, any energy bill, and he wants it before Christmas. Only a few like Abourezk are holding out to kill it altogether.

The guts of the deal are these: One. The Senate will pass a bill substantially along the lines of the bill Senator Long passed through the Finance Committee. Two. The likely outcome of the House-Senate conference is agreement on a crude oil equalization tax. One-half of the taxes will be rebated back to the public and one-half will go into ploughbacks. We're not sure what will happen to Long's energy development corporation, but he could push this through later once he's got his tax ploughbacks enacted."

was reported onto the floor, indicating he would bring it up as an amendment at that time, Jackson and the liberals then moved against his authority to negotiate a compromise in conference on the grounds that it would become an "oil company ripoff." When that amendment was voted down, 56-38, Republican Senator Robert Dole rallied congressional conservatives behind a motion to kill the bill altogether on the grounds that it was "not an energy bill, but a tax-gouging scheme."

The liberal press immediately played up this "liberal-conservative coalition" as a major political event. In fact, it was all a cynical charade.

Early in the week, Carter had quietly let it be known that he wanted the Senate bill passed quickly and sent to conference and quickly voted on in substantially the form in which it came out of the Finance Committee. Jackson and the liberals, therefore, were acting on behalf of Schlesinger, not Carter, when they attempted to intimidate Long and gut his authority, and weaken his hand so the bill would resemble the Schlesinger version. The Dole operation, on the other hand, instead of attempting to rally pro-growth congressmen behind a competent approach by pushing a high-technology EDC, contented itself with irresponsibly piling up political points against Carter for what one Senator called the "Rosemary's Baby" bill which is quite likely to result from the compromise.

At week's end Long had not yet reintroduced the EDC, and his numerous statements on the floor that he would fight only for "a bill the President wouldn't veto" indicate that he and the Senators backing him are now primarily interested in securing the appearance of having acted responsibly on the energy issue. "Maybe next year," a few have said when confronted with substantial support assembled by the Labor Party for an

EDC emphasizing nuclear power development.

A sudden weekend statement by Carter saying he favored an "eventual end" to deregulation of natural gas prices was immediately interpreted by Congressmen as a sign he was willing to compromise on this key issue of the bill as well; the Senate had decontrolled prices altogether, the House had preserved the controls with a small price rise.

Business and labor must share responsibility for the grave risk that the country will now get a bad bill or no bill; neither has mounted an effective lobbying operation on behalf of a comprehensive nuclear development program and have contented themselves with trying to "fix" the Administration's bill with their own pet nostrums. Fortunately, as the Fitzsimmons, Connally and other statements show, forces to correct that situation are now in motion.

'Selling The Eskimos'

The following was the lead editorial in the Wall Street Journal Oct. 26.

The story of the week, we see by the news magazines, is that the Carter administration is in deep trouble. After nine months, all Jimmy Carter has to show for his effort is falling popularity, a falling dollar, a falling stock market, a fallen Bert Lance, and fallen arches on Capitol Hill. "Can Jimmy Carter Cope?" Newsweek asks, reporting that the "currently fashionable gossip" is that he cannot.

But he has to. It's fine for the Republicans to cluck about Mr. Carter's slide and project big wins in next year's congressional elections and a recapturing of the White House in 1980. But what happens to the Republic meanwhile? If the stock market falls 180 points in each nine-month stretch between now and 1981, as it has in the last nine months, it will be below the line.

No. Sooner or later Mr. Carter simply must sort things out, if only by trial and error, though we do worry about the damage that will be done between now and then. The same fashionable gossip that is now writing off Mr. Carter and his Georgia boys is at the same time trying to needle them into betting all their chips on a quick victory, something to save presidential face.

The result is a cry of all hands on deck to save the energy bill. If the energy bill can be salvaged, goes the theory, the President's decline will be halted and he can hold his chin up as he goes into the second year of his

Presidency. If somehow, the bill is lost to the treacherous Senator Long of Louisiana (or is it Transylvania?), the Carter people will be doomed henceforth to slink in shadows.

The essence of this diagnosis is that what Mr. Carter lacks is salesmanship. Not substance, but style.

It's hardly surprising that this now is the conventional diagnosis in Washington, because it comes from the folks who designed the substance of the Carter program, the Democratic intellectuals and technicians who reside in the capital year in and year out. As far as they are concerned, they designed wonderful policies, and the only problem is that the clods from peanut country have lacked the wit to sell them.

But it's one thing to sell Eskimos iceboxes and another to sell them nudism. This group that designed the \$50 rebate, which Congress rejected, is the same bunch that designed George McGovern's \$1,000 rebate, which the national electorate rejected. Conserving energy by passing \$100 billion in new energy taxes is an idea that came down the same chute.

The problem, you see, is that the American people do not know what is good for them. But they can be sold anything if it's done right. Panama Canal treaties. SALT treaties. Gas-guzzler taxes. Oil taxes. Social Security taxes. Capital-gains taxes. If only Mr. Carter would name a White House chief-of-staff to take charge of the salesmanship. Or, make friends with Senator Byrd of West Virginia. Or, go over the heads of Congress to the American people.

With all this pulling and hauling, President Carter is likely to get his face-saving energy bill. He'll get a compromise out of Russell Long. But it won't do anything for his standing in the country or among the fashionable gossipers of Washington. The liberals will disown it and blame the President for failing to strongarm the Senate. The Republicans and oil-and-gas Democrats will disown it too.

Sooner or later, though, President Carter will sort things out and learn how to cope. The key is that his administration is in trouble not because of style, but because of substance. He doesn't need new speech-writers, he needs new policies.

He, his team, and the country too would be much better off if he forgot about salvaging something out of the mess that is now the energy legislation, forget about face, and chalk up the last nine months to experience. He can start from scratch, and instead of trying to sell the people what they obviously do not want, go back to finding out what it is they do want. That's how he got to be President in the first place.

Carter's Fence-Mending Tour A Fiasco

In his whirlwind "fence-mending" tour of five states last week, Carter walked right into the trap laid for him a fortnight before by Vice-President Mondale and Mondale's associates in the Administration, and returned to Washington amid press reviews unanimously panning the excursion a complete fiasco.

The public relations disaster was personally arranged by Mondale during an identical tour two weeks prior to the President's trip. But Carter himself sealed his ignominious fate by ignoring the strong public mandate for industrial and energy expansion and development, and instead taking his no-growth energy package "to the people" for certain rejection.

As prescribed by the Mondale-set agenda, Carter was confronted by jobless lumpens demanding the Humphrey-Hawkins public-works "jobs" bill in Detroit, greeted by a multi-issue calvacade of anti-Administration demonstrators in Los Angeles, and embarrassingly upstaged by a dying Hubert Humphrey in Minneapolis. The Oct. 24 *Washington Post* slyly reported that Carter's stopover to pick up the ailing Humphrey was the "highlight of the trip after three days in which the high points seemed few... any sense of focus or central purpose seemed lost."

The Oct. 25 *New York Times* scored Carter's failure to publicly support the Humphrey-Hawkins bill in Detroit, charging he had been "insincere" in the negotiations

with the Black Caucus on the legislation, and quoted Detroit Congressman John Conyers' bitter complaint: "I feel I have been put on."

In Des Moines, Iowa, Carter reenacted his Schlesinger-inspired fireside chat on energy and recent "oil rip-off" speech, telling his disbelieving audience they had to "swallow the bitter pill" of energy conservation or face an "energy catastrophe." The local press noted that in recent polls Carter's "popularity in Iowa has plummeted along with farm prices."

The Oct. 25 *Baltimore Sun* found the President's attempts to mollify West Coast Democrats on the Middle East "rambling, unfocused, overlong... poorly prepared, delivered, and received," and accused him of trying "to defuse opposition at the rate of one issue every three hours" (among them, urban policies, his farm program, Western water policy, the Panama Canal treaties, and the Middle East).

By the time he stumbled back into Washington, Carter had been unequivocally informed by the press that his efforts to rally political support had been an unmitigated failure; serving only to underscore his political weakness. The Oct. 23 *New York Times* welcomed Carter home with a five-column headline: "Carter's First Nine Months: Charges of Ineptitude Rise," and the observation, "Every Night is Amateur Night at the White House."

Teamsters' President Declares War On Union Busters

Frank Fitzsimmons, President of the International Brotherhood of Teamsters, broke precedent Oct. 27 in a speech which named the names of the enemies of labor as identified in the U.S. Labor Party's pamphlet The Plot to Destroy the Teamsters — Who's Behind It — How to Stop It. Fitzsimmons's speech, issued at a meeting of the Teamster Southern Conference in Dallas, was a clarion call to the American labor movement to declare war on those who are attacking the

LABOR

IBT as the leading edge in a campaign to destroy all U.S. trade unions.

The Fitzsimmons call is the result of a process — led by the U.S. Labor Party — to bring U.S. trade unions into action for the revival of the U.S. economy based on high-technology energy production and capital export. It comes at the same time as the office of United Steelworkers President Lloyd McBride has authorized steel locals across the country to buy the U.S. Labor Party's programmatic briefs on steel and nuclear energy in bulk, and as growing numbers of local officials in the International Brotherhood of Electrical Workers, the

Building Trades, and the IBT are sending telegrams of support for the Nov. 11 rally of West German trade unions in Dortmund, West Germany for nuclear power.

These developments signify the beginnings of a programmatic labor counterpole which can act as the muscle behind a labor-industry alliance for high-technology capital investment to reverse the depression.

Following is the full text of Fitzsimmons's speech.

There is a refrain from a song which describes this affair held in honor of our good brother Dick Piland. You remember the words, "The stars at night are big and bright, deep in the heart of Texas." Certainly brother Piland is the star of the show tonight, and the attention is so richly deserved because Dick has been associated with the labor movement in Texas for so many years.

It is a truth of the labor movement that only the best representatives of labor survive in the south where laws and atmosphere demand that a labor leader give totally of himself to overcome those adversities. Dick Piland fits that mold.

I would like, tonight, to look at some of the reasons for the justified pride of Dick Piland, and yes, of all of you who represent Teamster members in Texas and throughout the nation.

One of the things which extracts just a little bit more from a labor leader is the fact that it is organized labor which says 'No' to the economic and social injustices suffered by those who have no organization to speak for them. And when you say 'No' to that, you step on the toes of the special interests and powerful forces.

When the daily newspaper goes to press or when the evening news on TV hits the tube, the true story of organized labor is never written or shown. And that true story is that Teamsters are not only working for their members but labor for all workers. Yes, it is organized labor and the Teamsters which have been and are in the forefront for: Child labor laws, public education for all children, minimum wage laws, unemployment and workers compensation, social security, national health care.

And there is something else.

It is organized labor and the loud voice of the Teamsters which say 'No' to those behind the conspiracy to once again make America the scandalous open shop it was in the 1930s and the 1940s.

And when you are saying 'No' to that proposition you are saying 'No' to the most powerful forces in corporate America. They control financing; they control the number of jobs available; they control the gross national product; and they would control your very lives if it weren't for such men as the one we honor tonight.

Yes, they control the news media through their corporate advertizing. So if there are any of you here who wonder why nothing good is written about union labor you can go to sleep tonight with the answer well in mind.

And if you wonder why the news media has singled out the Teamsters as the national whipping boy, the answer is simply because the Teamsters shout 'No' the loudest of all.

Well how did this come about? It came about because workers who are free from poverty and corporate control have been organized and negotiated out of the poor house by joining unions and bargaining collectively with corporate America.

And with 2.3 million members, the Teamsters have done more than any other union in the nation, not only in terms of numbers, but also in the quality of the labor agreements we have negotiated. Dick Piland knows something about that.

So in spite of what you read, we Teamsters must have been doing something right. Yes, we have done so well that we are no longer a truck drivers' union.

The Teamsters Union is a cross-section of America.

In our ranks are: university professors, airline pilots and stewardesses and clerical and cargo personnel, nurses, policemen and deputy sheriffs, industrial workers, zoo keepers, and office workers.

And the list goes on and on and becomes too numerous to mention here. And it tells a very significant story. That story is that among Americans looking for a union, the Teamsters have the reputation as the best union in the country.

Dick Piland and you from labor here tonight can take a great measure of pride from that.

Let's look at that reputation for a moment. You hear a lot about the wages we negotiate and the standard of living our members enjoy. But there is more to it than that which is very important to the American workers.

It is a vehicle for airing grievances against the boss. And that goes to the guts of the issue. Because in the Teamsters we have a grievance machinery in our contracts through which the workers can get a fair and impartial hearing.

It may not be perfect, but I can tell you this: Until something better comes along, those who slander our grievance machinery, attack the nuts and bolts of trade unionism and leave the American workers standing naked and unprotected.

There is an ancient biblical reference to workers, and it goes something like this: pay the workers before sundown.

Well, we in the Teamsters can say that because of our efforts, our members can live from payday to payday, and if they aren't paid their full share by sundown on payday, the employer has hell to pay.

It hasn't come easy. The struggles have been difficult and sometimes bloody. They have been long and arduous. But today, our members are self-supporting members of their communities.

They are taxpayers carrying their full load to provide for a strong national defense, decent schools and good roads and highways, and all the other things which make America the greatest nation of the world.

They are leaders in their communities and in their states.

And they are in the forefront of charitable endeavors.

And it has all come about because our members have realized that well intentioned and well directed collective action bodes well for all. And Dick Piland has been part of that.

But it would be less than honest if I did not point out that there are some disturbing omens on the horizon.

There are those who would destroy all of this and they are working night and day toward accomplishing that end.

The brain trusts and financial backers are not rank and file members.

They are not leaders of local unions. They are not from our ranks, but they are outsiders who never organized a worker and who never negotiated a contract.

They are people who never worked with their hands. If they were working in a warehouse they wouldn't know a hand truck from a roll of toilet paper. If you put them in the cab of a truck, they couldn't start the engine, let alone back it up to the dock.

And they are trying to infiltrate your ranks and they have the financial backing of the multi-million dollar tax-exempt foundations, and they have the ear of the news media.

And they are doing it with a handful of our members whom they have duped into thinking they have a reform movement when the intention is to ruin and destroy.

If you think I am merely building a straw man, let me tell you what I am talking about.

You all remember the chaos which occurred in the UMW, a chaos which is continuing today. But many of the same tax-exempt foundations, many of the same lawyers and many of the same outsiders, who are trying to infiltrate the Teamsters, created the mess in the Mine Workers.

And you know that today there is no money in the Mine Workers Fund to pay health and welfare benefits, no

USLP Urges IBT Support BRD Workers' Nuclear Stance

On Oct. 27 the Executive Committee of the U.S. Labor Party and its chairman Lyndon H. LaRouche, Jr. sent the following telegram to Frank Fitzsimmons and Ray Schoessling, president and secretary treasurer respectively of the International Brotherhood of Teamsters.

We wish you the warmest congratulations for your speech of Oct. 26 in Dallas, Texas. Your move to rally the entire labor movement at this time by naming its enemies is critically important.

We urge you to take the opportunity of publically endorsing the prodevelopment, pronuclear power, antiterrorism demonstration being organized by the West German Trade Union Federation. The terrorists in West Germany and our own enemies are the same. Such a move of solidarity at this time, coupled with a mobilization of trade unions here such as you have begun, can be the essential ingredient in realizing a nuclear, high-technology energy policy for this country adequate to sustain labor needs.

money to pay pensions and now the mineworkers are facing contract negotiations split asunder and without the unity needed to meet the coal owners on an equal basis.

But I want you to know that as long as I have a breath of air in my body, no one, nobody is going to do to the Teamsters what they have done to the Mineworkers Union.

But let's look at something else. Recently, the United Steelworkers held an election for national officers. It was a story which appeared almost daily in every major newspaper in the nation.

And the darling of the press was a fellow by the name of Ed Sadlowski.

Who supported Sadlowski, the great reformer who was going to turn the union into a utopia? Don't take my word for it, because Lloyd McBride went into court and got Sadlowski's financial records and what did they reveal?

He was receiving money for his campaign from corporations. Money came from Beverly Hills, Calif. It poured in from San Francisco. Yes, it came from Cambridge, Mass., where Harvard professors lift nothing heavier than a book or a research paper, and walk between ivy covered halls instead of the job site.

Yes, money poured into Sadlowski's coffers from New York-based tax-exempt foundations. And in Beverly Hills or San Francisco, or Cambridge or New York City, I'll be damned if I can locate one steel mill.

Well, there is a brighter ending to the steelworkers' story. While the rank and file of the mineworkers swallowed the bait like catfish in a pool, the rank and file of the steelworkers shouted a resounding no to the outsiders and elected Lloyd McBride — a veteran trade union leader who had a reputation for building instead of destroying.

For a moment, let's look at the press and its coverage of the steelworkers' election. It was so flagrantly one-sided that a reporter from Pittsburgh — and there are steel mills in Pittsburgh — wrote in the *Columbia Journalism Review* that the press was caught redhanded on the side of Sadlowski and against McBride. But steelworkers believe what they read in their union contracts, and not what they read in the newspapers.

Yes, it is the outsiders who are trying to destroy organized labor, including the Teamsters' Union. Who are they:

* The Kaplan Fund of New York City, with assets of \$23 million.

* The Stern Fund of New York City, with assets of more than \$3 million.

* The New World Foundation of New York City with assets of more than \$12 million.

* The Samuel Rubin Foundation of New York City with assets of more than \$16 million.

* The Field Foundation of New York City with assets of more than \$16 million.

* And of course, the Rockefeller Family Foundation (And a lot of people would like to know how many millions are in that fund).

Yes. Millions and millions of dollars, all tax exempt, being used to destroy the labor movement in this country.

Being used to destroy your wages, hours, and conditions.

Being used to destroy your unions which speak not only for you — but for millions and millions of Americans who have no spokesman.

That is what is afoot in this country today and it should send painful chills up and down your spine.

But I want to say this now, and I want you to heed what I say:

Our business is to represent Teamsters. According to their rights, they may also belong to the Veterans of Foreign Wars, the American Legion, the Elks, the Baptist or Catholic Church. Yes some of them may belong to PROD or TDU or other groups financed by outsiders.

But I want you to know — if they are Teamster members, they are represented to the full extent — and if I hear otherwise the guilty party will have hell to pay with me and long before sundown.

What do these outsiders accuse me of?

They say that I am a dictator.

And they say that the union is undemocratic.

You name it, and we have been accused of it. And according to their technique, these charges don't go through our grievance procedures, and our constitution, which work for the good of all.

They go to the same newspapers and TV stations who aided and abetted in destroying the UMW and who tried to destroy the steelworkers union.

What concerns me is that we do have a procedure for solving our problems — and I don't know of an organization anywhere which doesn't have a few problems — but they refuse to use it.

Obviously, they have learned that publicity comes from a willing press, not from a bona fide grievance procedure. And that is the reason I question their motives.

But nevertheless, they charge that I am a dictator in this union. Well, that is a crock of you know what.

Three of those who follow the outsiders have filed charges to drum me out of this union. Those charges are now before the General Executive Board.

Those charges were brought under our constitution which is supposed to make me a dictator. The truth is that under our constitution, the general president is no different than a rank and file member.

And I ask the question:

How much more democratic can you get?

Well, I tell you this. I welcome and implore these two — one member has withdrawn his name — to bring their so-called evidence before the General Executive Board. I know where I have been and I know what I have been doing for our more than two million members.

So I say to those who have made loose charges and false accusations: you have not found a patsy in Frank Fitzsimmons. I never ducked a fight in my life and when the bell rings for this one — your general president will be on his feet in his corner and ready to swing.

I'm no outsider. I've worked for within for 44 years and I've worked to build and improve.

I am a Teamster through to the marrow of my bones, I serve that notice on the outsiders who would tear down and destroy this great international union.

That's the battle cry for all of us who have the Teamster dedication, and that's what makes me so optimistic about our future.

If it's a fight they want they'll get it and let me tell you who our troops are.

Thousands and thousands of retirees like Dick Piland who grew up on teamsterism and who still respond to the battle cry. Thousands and thousands of veteran leaders and rank and file. Seasoned veterans who know from experience that everyday has been a battle — yes, a way of life.

Thousands and thousands of younger officers and rank and file who are well-educated and articulate, who know that in unity there is strength. And who know that when the battle is going, our ranks always close.

Take that message back to those outsiders joined in the conspiracy to destroy labor and the Teamsters.

And day by day — hour by hour — represent that rank and file in the fine tradition which made the Teamsters the largest and best union in the world.

Organize the unorganized — at overnight transportation and everywhere else. And I tell you, that is an unbeatable battle plan. Our cause is just. Our dedication is unending. And let the world know that in the Teamsters, the member on up to the general president, are one and the same — united, strong, and militant. Thank you.

World Focuses On Dortmund Rally For Nuclear Energy

A mass demonstration of West German industrial workers for nuclear energy scheduled for the city of Dortmund Nov. 27 is rapidly becoming a focus for an international labor-industry alliance now mobilizing to make sure that monetarist financier groups in London and New York do not succeed in their design for

economic "zero growth." When a similar demonstration occurred several months ago in New Hampshire in the United States, it dealt a significant setback to these financiers' American "ecology movement." The Dortmund demonstration now promises to be even larger, and is attracting active support from around the world.

Every major national trade union in West Germany, with at least 50,000 workers committed to be there, have endorsed the Dortmund rally. The leading West German nuclear reactor company, KWU, is renting two trains to transport all of its 14,000 employees to the site. The government of Helmut Schmidt, which has been under regular attack from the London-New York "ecology movement" targeted by the demonstration, is implicitly supporting the workers' mobilization.

Telegrams and support messages from North America have flooded the West German unions. A sampling of the signatories are the following:

Canada

Hughes LeDuc, Local 791,
Quebec Federation of Labor, Montreal
Andre Rheume, Local 711,
Quebec Federation of Labor, Montreal
Jacques Savage, Local 271,
Quebec Federation of Labor, Montreal
Patrick Arsenault, Local 271,
Quebec Federation of Labor, Montreal
P. Ronaldi, President, Local 711,
Quebec Federation of Labor, Montreal
Mr. Cummings, Local 711,
Quebec Federation of Labor, Montreal
Joseph Corobone, President, Bricklayers,
Quebec Federation of Labor, Montreal
Marcel Paquin, Interprovincial Brotherhood of
Electrical Workers, FIPQE
Paul Lebel, Local 1675,
Quebec Federation of Labor, Montreal
J.P. LaZoe, Local 823,
Quebec Federation of Labor, Montreal
L. Chouinard, Local 271,
Quebec Federation of Labor, Montreal
Maurice Pouliot, President, Local 144,
Quebec Federation of Labor, Montreal
Quebec Federation of Labor, Montreal
L. Martel, Local 71,
Quebec Federation of Labor, Hull, Quebec
Marc Turcotte, Local 7,
Quebec Federation of Labor, Hull, Quebec
Roger Gagne, Local 804,
Quebec Federation of Labor, Hull, Quebec
Claude Jutras, Council of Craftsmen,
Quebec City, Quebec
Raymond Huot, Local 755,
Quebec Federation of Labor, Quebec City, Quebec
Jacques St. Croix, Local 71,
Quebec Federation of Labor, Hull, Quebec
Ken Perry, Treasurer, International Brotherhood of
Electrical Workers, Local 1788, Ontario, Canada
John Donaldson, B.A. Ironworkers Local 79,
Ontario, Canada
Jack Tressider, President, Ironworkers Local 79,
Ontario, Canada

Kevin Floyd, Shop Steward, International Brotherhood
of Teamsters, Local 939, Ontario, Canada
Ontario, Canada
Rudi Morrison, Executive Officer, International
Brotherhood of Electrical Workers, Local 1095,
Ontario, Canada

United States

Ray Borkoski, Energy Advisor,
United Steel Workers of America, Financial Secretary,
USWA Local 15-156
John Todorich, Vice-President
United Steel Workers of America, Local 1082
Tom Simon, President,
United Steel Workers of America, Local 3304

Steve Missionak, Secretary-Treasurer,
International Brotherhood of Teamsters, Local 250
John Bradley, General Council
International Brotherhood of Electrical Workers,
Local 1956
Bob Hurder, Secretary,
Leatherers Local 151, Syracuse, New York
James Ridgeway, President,
United Paper Producers, Local 1066, Syracuse, New
York

Other Signers

Dr. Zilpha Ellis, Prof. of Comparative Literature,
York University, Toronto, Ontario, Canada

U.S. Labor Party Campaign White Paper:

How Debt Destroyed New York City's Economy

On Oct. 28 Christine O'Connor, the U.S. Labor Party's candidate for Comptroller of New York City, presented the following campaign white paper on the causes of the city's financial plight. Speaking for the party's New York City slate, which also includes mayoral candidate Elijah Boyd and City Council President candidate Paul Gallagher, O'Connor said, "We bring this report forward now, in the final days of the campaign, to emphasize that

SPECIAL REPORT

the New York banks' murderous policy of looting through debt is not an issue confined to this city or to 'election-year politicking.' This policy question is the dividing line between the labor, industry, and allied forces that are fighting to save the entire U.S. economy, and the London and Wall Street-based bankers and other traitors who are trying to make the misery of New York just a foretaste of a national austerity regime whose severity will make the epithet 'fascist' seem polite."

INTRODUCTION

"If Koch is elected, you will very likely see Big MAC as the financial control mechanism for the next 20 years. Up to now, regardless of who the mayor was or could have been, there have been only emergency, ad hoc fiscal arrangements. Now these will become permanent. That is, whoever runs the city — the mayor, comptroller, city council — will have nothing to do with credit dealings between the city and the rest of the country. Those who take care of credit will have to have a certain amount of oversight over things. No one will disagree with this because of the mess city government made of things before. Now there's going to be someone to guarantee that the city will maintain the rules of the game, and that will require an outsider. . . .

"The next mayor in any event will have a quiet meeting some time before next spring to discuss this, and in all likelihood Big MAC will wind up running the show. Rohatyn may have disagreements with everybody and everyone, but one thing about him you can't deny, he makes things go and he wins."

—An economist at a top New York think tank, Sept. 8, 1977

One thing that Felix Rohatyn is counting on winning is the New York mayoralty race. Rohatyn, a partner in the powerful British-tied Lazard Freres investment house and the financial wizard of the city's "Big MAC," is so sure that his chosen candidate and personal friend Ed Koch will win the mayoralty that his and Koch's mutual personal friend, British-Australian publisher Rupert Murdoch, has taken to calling Koch "the mayor apparent" in the pages of his *New York Post*. And with Koch in the mayor's office, Big MAC and "Felix the Fixer" will indeed be "running the show."

But while the "above-politics" financier is confident of success in the political realm, he is by any rational measure losing — and badly — in his proclaimed area of expertise. Since MAC, the Municipal Assistance Corporation with Rohatyn in the chairmanship, was imposed on New York to "save it from itself" through what Rohatyn bluntly called "necessary pain and agony," the city has been slashed into virtual Third World conditions of disease and devastation — and, as this report will show, it is in worse financial shape than ever!

Ever since, MAC, the Emergency Financial Control Board, and the rest of the "bankers' junta" arrangements were introduced in 1975, the press columns and airwaves have been littered with "explanations" from pundits of all sorts. "The city has to pay for its previous orgy of overspending," goes the refrain. "Gross fiscal mismanagement. Now what we need is the kind of strapping austerity that wouldn't have been necessary had the politicians instituted austerity to begin with years ago." The criminal excess of hospital beds, the princely incomes of welfare recipients and municipal workers, the greediness and "low productivity" of policemen and firemen are all offered as "the problem."

The colossal failure of the Rohatyn group's reign in New York ought to be enough to silence the purveyors of such contemptible hooey, even slow learner Ed Koch — and including those who are pumping for Rohatyn's "Encono" proposal for regional and national MACs and other variants of the same austerity theme.

For the city's fundamental problem has, from the beginning, been the fact that its actual wealth-generating economy was undercut years ago through national and international policies of disinvestment, to maintain the value of debt and other bankers' paper. The resulting downward spiral of speculation, inflation and economic depression on the city, state, and national level, lawfully drove down municipal revenues to a point where only an increase in the city's debt could stave off total collapse

even momentarily. In short order, the growing debt assumed a life of its own, demanding more taxes and revenues from an ever-shrinking real economic base, gouging the capital budget, cutting deeper into services. It isn't the unions, or welfare, or "corruption," that is killing New York, it is debt — debt geared not to creating new wealth, but to cannibalizing existing wealth to maintain the paper value of the past.

No program of further cuts in the real productive base — austerity, whether sudden or stretched out — can do anything but exacerbate the debt problem. This report will demonstrate how Rohatyn's disastrous record in New York proves that point.

I. WHY NEW YORK CITY HAS A DEBT PROBLEM

To understand the fundamental cause of New York City's current debt burden, we must go back to the recession of 1957-58. Prior to this recession, the postwar U.S. economy had maintained a generally steady pace of growth in manufacturing and application of modern technologies. This was made possible by the hegemony of the Bretton Woods dollar in international trade, which meant that the large domestic and international debt contracted by the major banks and U.S. government during two world wars and the Depression could be underwritten and maintained on the basis of unusually high profit margins on relatively productive investments abroad.

The 1957-58 recession signaled the beginning of the end of the postwar boom, and of the Bretton Woods monetary system. Now the demands of modern technology required a qualitatively higher standard of living for, particularly, Europe's population — a standard which could be attained only through more U.S. investment in education, housing, and so forth, but which would prevent continually increasing subsidization of past debt.

With the installation of John F. Kennedy in the White House, the present path toward monetary and economic collapse was imposed on the United States. The heavy investments and deficit financing of unproductive "missile gap" military hardware and the Vietnam adventure sealed the fate of the postwar U.S. economy, ensuring purely speculative profits which would be ploughed back into maintenance and expansion of debt. These maneuvers culminated in the housing and office-building boom of the late 1960s and early 1970s and the creation of the offshore banking havens for uncontrolled Eurodollar speculation, in which domestic funds previously available for productive corporate investment increasingly fled into the hot air of "crap game" deals in currency and Third World debt.

For the U.S. economy, and specifically for New York City, this has meant a contraction of credit available for investment in basic infrastructure, capital goods, and wealth-producing "hard" commodities — and increased obsolescence of plant and equipment, a sharp growth in unemployment, spiralling inflation, and a concomitant drop in the tax base.

A. The Role of Real Estate Speculation

The number one cause of New York City's economic deterioration in the last 20 years has been exorbitant real estate speculation made possible through the complicity of financial institutions and city government. The office-building boom contributed enormously to inflating land

values and driving up building costs, but the real villain has been pure speculation in already existing buildings and their property titles in land. The concomitant take-off in mortgage debt, as "hot money" poured into this spiral, has more than doubled noncontrolled residential and commercial rents in the city during this period.

Tens of thousands of working- and middle-class people have fled to the suburbs, replaced largely by low-income or indigent minority groupings who depend on welfare checks as cash subsidies for mortgage-induced inflated rents. Likewise, hundreds of thousands of businesses have folded in this period (see below). The combination means billions of tax dollars lost. Today there is well over \$50 billion worth of mortgages on all buildings in New York City, which take at least \$2.5 billion each year out of the economy in interest charges alone.

The New York real estate tax laws have provided real estate speculators — but not small homeowners — with innumerable windfalls which not only fuel speculation, but rob billions of dollars from the city treasury — the major factor in New York's budget deficits and resulting debt build-up. In fact, the real estate interests are diligently reducing their share of local taxes. In 1935 real estate taxes made up 84 percent of New York City's budget revenue; by 1976 they contributed only 27 percent. Since 1961, according to figures from the Annual Report of the Comptroller and the Temporary Commission on City Finances, real estate taxes as a percentage of local revenue have dropped from nearly 55 percent to less than 45 percent in 1976, and from nearly 42 percent of total expenditures in 1961 to less than 28 percent last year. During the same period, the percentage of delinquent real estate taxes shot from 4 to nearly 11 percent.

Paul Anderson, in *Tax Factors in Real Estate Operations*, alludes politely to the well-known porkbarrel character of this investment area:

Real estate presents a number of important tax advantages that make it an extremely desirable investment for purposes of capital growth. The most important of these advantages are in the areas of depreciation, equity financing and tax-free exchanges. By a shrewd combination of these advantages, a personal estate may be built up more rapidly in real estate than in any other type of investment property...

New windfalls for investment in slum housing, as ecstatically described by syndicated columnist Sylvia Porter, are included in the 1969 tax law:

There are unparalleled opportunities for profit awaiting you, the investor in low-cost housing in the 1970s — as a result of the meshing of the giant new housing and tax laws. In fact, "some of the hottest real estate breaks in history" are opening up and "the tax law has re-established real estate as a top payoff investment," says Eli Warach, a...nationally recognized authority on housing.

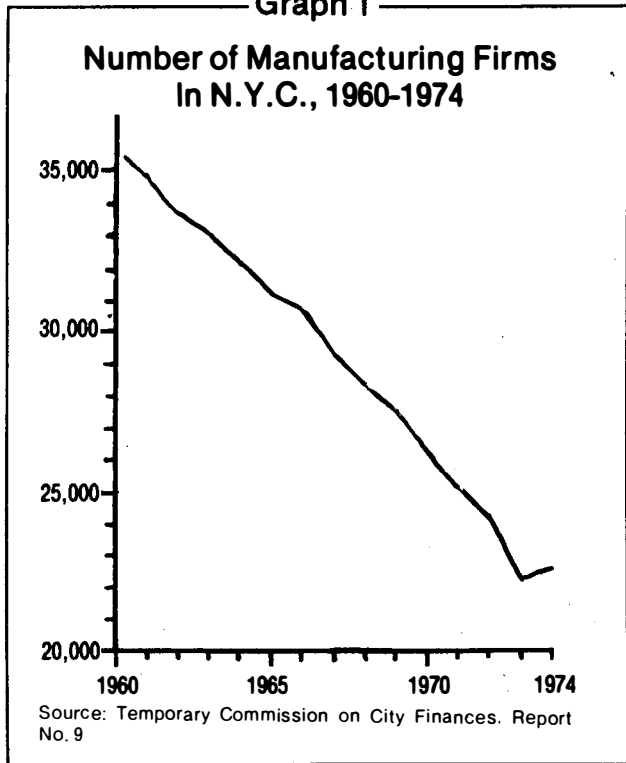
B. The Collapse of New York City's Economic Base

New York's productive base is characterized by the small shop. The overwhelming majority of its industrial and manufacturing firms employ 50 or fewer workers, in

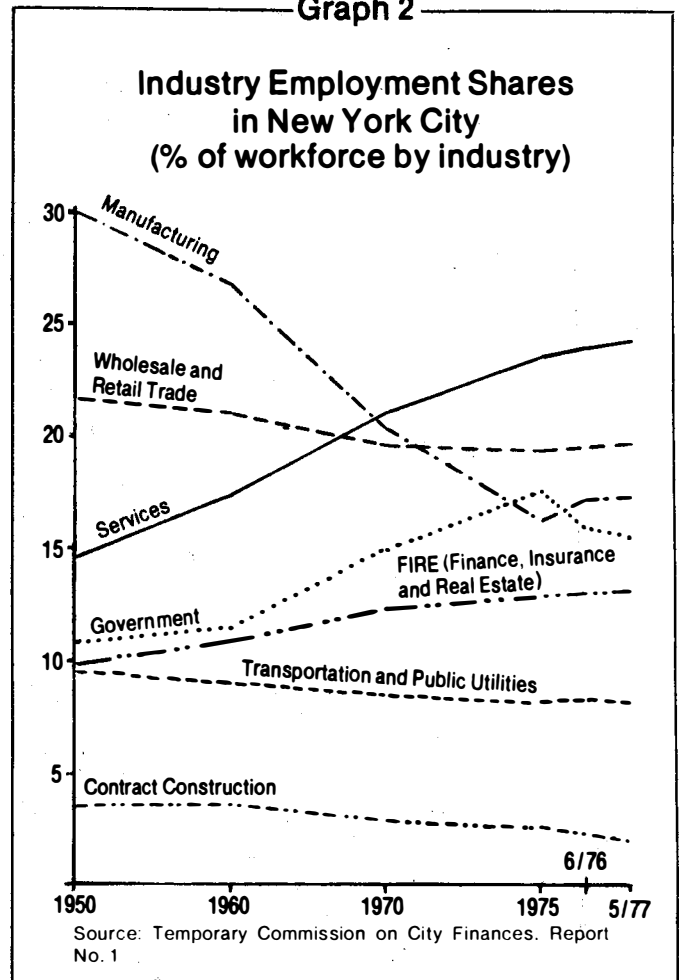
outmoded facilities built around the turn of the century or even earlier. There is little margin to weather periods of tight money and inflation. The statistics readily verify this:

*Manufacturing jobs peaked at 1,065,000 in 1953. As of 1976, only 544,200 remained — a 50 percent drop in less than 25 years.

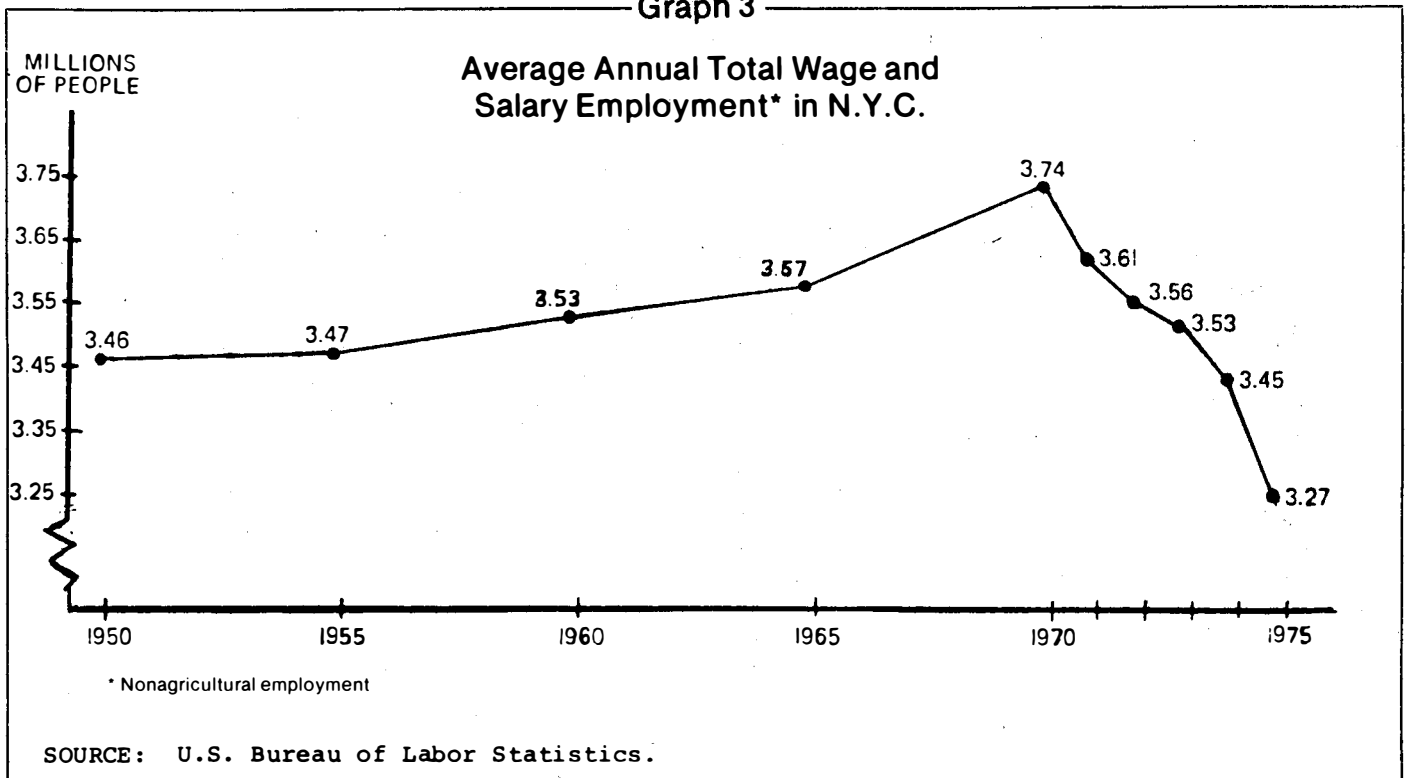
Graph 1



Graph 2



Graph 3



Graph 4

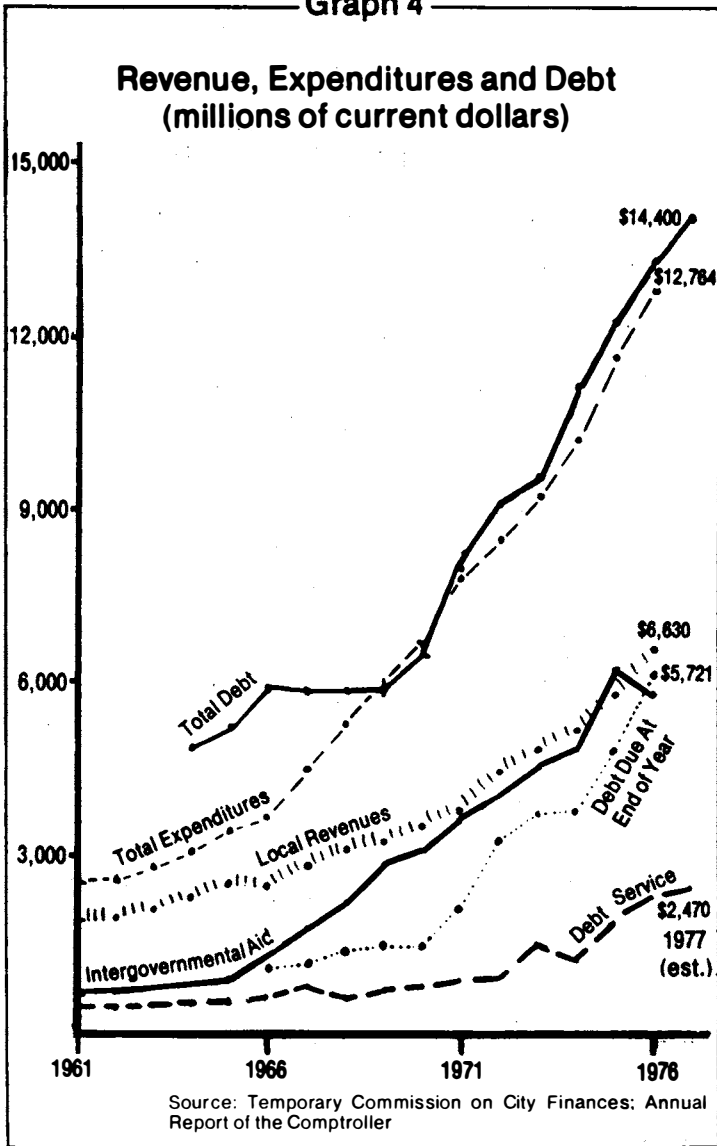


Table 1

City Deficits, 1960-76
(in millions of dollars)

	City Budget Deficits	Cash Deficits
1960	+ \$53	
1961	- 31	
1962	- 75	
1963	- 36	
1964	-100	
1965	- 54	-\$261
1966	-170	- 319
1967	- 1	- 106
1968	-258	- 181
1969	- 81	- 83
1970	-542	- 832*
1971	-779	-1298
1972	-618	- 942
1973	- 32	- 784
1974	-448	-1977
1975	-1,500**	- 773
1976	-985	-1168

* or 791. MAC annual report says 832, Comp. Rept says 791
** estimated

Source: U.S. Census Bureau, Annual Comptroller's Reports, Pt. I, Summary 1

*Nearly 40 percent of New York City manufacturing firms have folded since 1960. (Graph 1)

*In 1950, manufacturing jobs comprised 30 percent of all city jobs; as of 1977, the figure is only 17 percent.

*During the same period, the proportion of jobs in the wealth-producing categories of manufacturing, contract construction, transportation, and utilities, and wholesale and retail trade fell, while rising in the nonproductive sectors of government, services, and finance, insurance, and real estate. (Graph 2)

*Real wages for manufacturing employees are only at 1966 levels, as of 1975.

*According to a General Accounting Office report on New York City, private sector employment during the 1960s rose only 2 percent versus 27 percent in the U.S. as a whole. Manufacturing employment fell 19 percent in New York, while rising 7 percent throughout the U.S.

*Between 1969 and 1976, 285,000 private sector non-manufacturing jobs were lost, an average of 41,000 per year.

*From 1969-75, 289,000 manufacturing jobs were lost, an average of 48,000 per year. (Graph 1)

*After peaking at 3.74 million jobs in 1970, average

annual employment in New York — for public and private sectors combined — fell nearly 600,000, to 3.16 million as of June, 1977 — an average drop of 85,000 jobs per year. (Graph 3)

This is a portrait of collapse. Under these conditions, local revenue in the 1960s and early 1970s could not have kept pace with even the normally increasing requirements of a healthy city budget, let alone the ever-heavier burden of the New York City debt. As Graph 4 shows, the city's total debt has left its total expenditures far behind, and debt falling due is on the verge of exceeding local revenues. The debt has very nearly devoured the city. Note, too, that the overall annual rate of increase in local revenues has stagnated in terms of constant dollars at less than 5 percent, despite a series of tax increases and budget cutbacks. At the same time, the rate of increase in total budget expenditures up until the 1971-76 period is generally double that of local revenue, in current dollar terms. But in constant dollars, the rate of increase in expenditures outpaces local revenues by double or triple.

In large measure the discrepancy has been made up by even faster rates of increase of intergovernmental (state and federal) aid. A Temporary Commission on City Finances report of October 1976 shows that such aid rose from 23 percent of the city's total expenditures in 1961 to 52.2 percent in 1975, falling back somewhat to 46.6 percent in 1976 as the noose tightened on the city. In *constant dollars*, the aid over that 15 years increased 430 percent.

In the main, this aid has gone toward so-called social services — hospitals, welfare, and higher education — and accounts for the vast increases in these areas since 1960. In most cases intergovernmental contributions have been geared to matching funds formulae, whereby the federal and state governments match every local revenue dollar for these programs two or three times over.

Nevertheless, the city has run operating budget deficits every year since 1960 (*Table 1*) to the tune of nearly \$9 billion over the past 12 years, according to Annual Reports of the Comptroller. Over \$5 billion of this deficit, minimally, has resulted in accumulated debt, according to the U.S. Bureau of the Census. In this situation the city increasingly went to the bond market, floating more and more short-term debt issues and “borrowing” increasing amounts for the capital budget. This process accelerated until the markets were closed to the city in April 1975.

II. THE DEBT AND THE CLEARINGHOUSE BANKS. THE CASE OF MASS TRANSIT

One thing never mentioned (by any of the analysts) is the killing that the New York clearinghouse banks and investment houses have made on city debt, since the turn of the century. Apart from the considerable fees and commissions they garner on each debt issue, these institutions annually collect, on top of principle payments, about 50 percent of that principle in interest!

The transit debt is a prime example — although only one of many — of how the banks have manipulated and consciously increased New York's debt to maintain a steady annual flow of city income into their coffers. On top of the sheer speculative swindle involved in the city's original subsidization and eventual ownership of the subway system — a ripoff geared to prevent default on the gargantuan debt owed by the transit companies to the banks — these same banks, who held most of the original subway debt, have had their original investments paid off many times over since 1910. Take 1975-76. The debt service paid over this 12-year span, \$1.932 billion, equals the *current* amount of outstanding debt — and this is more than *double* the debt at the beginning of 1940, the year the city bought out the rolling junkpiles known as the IRT and BMT. (*Table 2*)

Transit debt over the last 30 years has comprised 25 to 35 percent of the city's total long-term debt. The Annual Reports of the Comptroller list the new bond issues “for transit construction.” But as is obvious from the “Second Avenue subway,” which has been financed and refinanced but never built, such moneys have in fact gone merely to augment the debt service payments going to the banks.

The city thus entered the 1960s with \$1.5 billion in transit debt alone — a debt that had been paid many

Table 2

Transit Debt and Debt Service (in millions of dollars)			
Fiscal Year	Total Debt Out- Standing **	Total Debt Service	Total Debt Out- Standing Year end
1940*	818	33	1,131
1945	1,142	57	1,155
1950	1,195	67	1,261
1955	1,286	81	1,333
1960	1,571	97	1,630
1965	1,763	144	1,793
1966	1,793	151	1,794
1967	1,794	128	1,825
1968	1,825	167	1,808
1969	1,808	137	1,822
1970	1,822	146	1,870
1971	1,870	147	1,919
1972	1,919	208	1,893
1973	1,893	155	1,950
1974	1,950	156	1,963
1975	1,963	169	1,948
1976	1,948	219***	1,932
1965-76		1,932	

Note: * 1940 is the year the city bought the IRT and BMT
 ** beginning of fiscal year
 ***estimated
 Source: Annual Reports of the Comptroller

times over already, that cost \$100 million annually, that gave the city the right to administer an unprofitable, obsolete transit system which gave horrible service while funneling poorly paid workers into a dwindling number of unproductive jobs. Any question of city mismanagement in the current crisis would, therefore, have to address those financial institutions which created the preconditions for the crisis.

III. DEBT AND AUSTERITY IN THE 1960s AND 1970s

A. Parameters of the Debt Crisis

With the collapse of production-oriented investment in New York City's private sector economy in the 1960s, the advent of Lyndon Johnson's Great Society poverty

Table 3

New York City Debt (in millions of dollars)									
Date	Gross Funded (Long-term) Debt	% ±	% ±	Temporary (short-term) Debt	% Temp/Tot Debt	Total Debt	% ±	Net Increase in Total Debt	Cash Deficit in Budget
1966	5019	6.7	-11.2	467	8.5	5,486	4.9	256	319
1967	5070	1.0	40.0	635	11.1	5,705	4.0	219	106
1968	5044	-.5	9.1	693	12.0	5,737	.6	32	181
1969	5080	.7	7.8	747	12.8	5,827	1.6	90	83
1970	5236	3.1	72.4	1,288	19.7	6,524	12.0	697	832
1971	5635	7.6	80.0	2,319	29.2	7,954	21.9	1430	1298
1972	6380	13.2	14.3	2,650	29.3	9,030	13.5	1076	942
1973	6917	8.4	-5.0	2,518	26.7	9,435	4.5	405	784
1974	7652	10.6	35.7	3,416	30.9	11,068	17.3	1633	1977
1975	7767	1.5	32.0	4,540	36.9	12,307	11.2	1239	733
1976*	11,148	43.5	-54.4	2,070	15.7	13,218	7.4	911	1168
	8,352	7.5	7.2	4,866	36.8	13,218	7.4	911	1168
1977									
(Jan 31)	11,700	5.0	30.4	2,700	18.8	14,400			

* In 1976, MAC spent about \$3.720 billions in bonds, 2.796 billions of which replaced the city's short-term debt. So if the MAC \$3.7 billion is counted as long-term, the first set of figures are obtained; but to maintain continuity, the second line shows that the short-term debt is still growing in 1976.

In 1975, short-term debt coming due peaked at about \$5.5 billion in spring of that year, coincident with the banks' refusing to market city debt. Note the last two columns in this chart, which shows a general coherence between the budget cash deficits each year and the increase in debt. Note also that 1970 is the "out-of-control" take-off year for short-term debt, while long-term debt is steadier.

Source: Annual Reports of the Comptroller

programs paved the way for a temporary de facto bailout policy. The takeoff year for federal and state aid for New York was 1966, when aid was increased 50 percent by \$450 million. This offset a precipitous \$150 million decline (in constant dollar terms) in local revenue. In the 10-year period from 1961-71, intergovernmental aid increased annually at a 20 percent clip. With money on this scale available under the attractive matching funds lure, the city made every effort to snap up as much as it could, thereby giving an illusion of growing prosperity at a time when the real economic base was sharply contracting.

Shrinking local revenues, federal money, banks seeking outlets for their cash, and the very real need to keep a lid on the underlying social turmoil associated with the end of any opportunity in the ghettos — all combined to send the city into increasing budget deficits and spiraling debt. (Table 3) While debt service (Table 4) as a proportion of total budget expenditures actually dropped during the 1960s and early 1970s (from 17 per-

cent in 1961 to 10.6 percent in 1971) — and even held steady as a proportion of real estate taxes levied, at around 35 to 40 percent — more and more of the debt therefore had to be rolled over each year. When federal money began to dry up in 1972, the city went more deeply into debt to maintain comparable levels of functioning.

In 1972, debt service amounted to nearly \$1 billion, 42 percent of the city's real estate tax levy. In 1973 this skyrocketed to nearly \$1.6 billion — 65 percent of the real estate tax levy. By 1975 debt service was nearly \$2 billion and 67 percent of the tax. In the 15 years from 1960 to 1975, short-term debt, debt due within one year, went from a mere 2 percent of the total debt to 37 percent! And the debt due at the start of each fiscal year went from an already unmanageable 45.1 percent of local revenues to an astronomical 91.1 percent by 1976!

B. Taxes

This spectacular increase in debt and debt service,

which is paid directly out of local revenue, combined with a fall in the tax base to cause an increase in the taxes and austerity imposed on city residents and businesses that makes New York the highest-taxed city in the U.S. For example, a corporate income tax was imposed about 1966, rose to 5.5 percent by 1970, was increased to 6.7 percent in 1971, and was raised to 10 percent in 1975. The regressive local sales tax was doubled from 2 to 4 percent in 1975. When coupled with a state sales tax that has increased to 4 percent, the result has been more stores and shoppers fleeing the city.

Throughout the 1960s taxes as a percentage of personal income varied between 7.3 percent and 7.9 percent. Starting in 1972, the percentage rose to 8.7 percent, and by 1975 had reached 10.2 percent. While personal income from 1963 to 1976 rose by \$23 billion, or 85.2 percent, taxes rose by \$3.2 billion, or over 150 percent. In New York, both working-class and middle-class heads of household pay twice as much income taxes as the U.S. average.

Table 4
Debt Service Comparisons
(in millions of dollars)

Fiscal/Year	% change each year	Debt Service	As % of Real Estate Tax Levy	As % of Total Expenditures Budget	As % of Tax-Levy Budget
1961	—	402	38.0	17.0	22.3
1962	-.5	400	36.2	15.6	20.7
1963	—	400	34.4	14.2	19.2
1964	8.3	433	34.4	13.9	18.6
1965	8.5	470	34.8	14.0	18.8
1966	25.3	589	41.1	15.3	23.2
1967	14.1	672	42.3	15.0	24.6
1968	-3.3	650	39.1	12.3	21.2
1969	2.6	667	38.1	11.1	21.5
1970	1.3	676	35.6	10.8	18.5
1971	22.8	830	39.7	10.6	19.9
1972	12.3	932	42.3	11.0	21.5
1973	71.5	1,598	64.7	17.2	34.2
1974	-20.6	1,269	47.7	12.4	23.5
1975	53.5	1,948	67.2	16.7	36.2
1976	18.3	2,304	71.0	18.1	32.7
1977 (est)	7.2	2,470	74.0		

Source: Temporary Commission on City Finances

Despite the tax windfalls for real estate speculation, it should be noted that New York real estate tax rates are on the whole commensurate with those in other parts of the country; property owners have not been hit nearly so hard as other sectors. The screams about rising real estate taxes have mainly come from speculators and their banker backers who were caught when the real estate boom of the late 1960s-early 1970s collapsed, and by slumlords who are faced with ravaged buildings and fleeing tenants. Real estate taxes are still the staple of local revenues, but since 1961 have fallen nearly 10

percent, from 55 to 45 percent. Real estate tax delinquencies, which increased steadily from 4 percent in 1960 to over 6 percent in 1973, were running at nearly 11 percent in 1976, reflecting above all the disinvestment in housing construction and maintenance.

C. Welfare — Austerity Disguised as a Gift

While it is certainly true that New York City provides the highest level of welfare benefits anywhere in the United States, these grants must be recognized for what they are: (1) rent subsidies to support inflated real estate property values; (2) wage subsidies to permit continued operation of low-wage, labor-intensive, heavily indebted industries like the garment center; and (3) a sop to the undereducated and unemployed to prevent uncontrollable social chaos.

According to the Temporary Commission on City Finance: "Despite the constant growth of AFDC (Aid for Families with Dependent Children — ed.) expenditures, the basic monthly grant level exclusive of rent for a family of four in New York City actually has declined, in constant dollars, from \$141 in 1961 to \$136 in 1975." In current dollar terms, the basic grant in 1975, again exclusive of rent, was \$258. If rent is included, the average payment per AFDC family in August 1976 was \$341.

This means that the rent allowance, on average, is a mere \$83 per month! Even with the highest allowable grant of \$400, rent allowance would still be only \$143 — an amount hardly sufficient to cover inflated New York City rents for a family of four. In other words, the average welfare family probably spends well over one-half of its monthly check on rent, which means that the amount the family has to live on is far below the poverty level. Such has been the fate of the "fat" welfare recipient.

D. The City Workforce

An Analysis of Seven Key Departments

An enlightening comparison can be made of employment and budget expenditures in seven major city departments, based on the Temporary Commission's reports. They are the four "traditional" departments of police, fire, sanitation, and education, financed mainly by local revenues, and the three "nontraditional," social service-oriented departments of hospitals, higher education, and welfare, financed mainly under inter-governmental aid matching funds formulae.

First and foremost, from 1971 to 1976, in the wake of the cutbacks imposed by the Municipal Assistance Corporation-Emergency Financial Control Board regime, funding for all seven drops as a percentage of both total and tax-levy (i.e., local revenue) expenditures, the latter dropping by almost 10 percent. In 1971, debt service accounted for nearly 20 percent of tax-levy expenditures; in 1976, the debt service portion was up to 32.7 percent, a 177.6 percent increase.

Budget Expenditures: In relative terms, the "traditional" services were sacrificed under federal funding policies, stagnating local revenues, and escalating debt service, and under the MAC regime, the funding drop has been tremendous. By fiscal year 1976, the percentage of both total expenditures and of tax-levy expenditures for both the four "traditional" departments and the three

“nontraditional” ones drop — because of debt service. But up to that point, it was generally the case that, by this measure, the service categories’ growth outstripped the traditional categories’ growth by a good margin, such that the decline in percentage of expenditures by the latter about equaled the increase in the former.

In the 15 years from 1961 to 1976, the share of total expenditures for the four “traditional” functions declined from 46 percent to only 30 percent, from \$1.1 billion to \$4 billion. By contrast, the welfare, hospitals, and higher education share increased from 22 percent to 37 percent, \$5 billion to \$4.9 billion (with hospitals increasing the least). Where in 1961 the four traditional functions accounted for double the total expenditures of the “service” functions, and triple the tax-levy expenditures, by 1976 they accounted for *less* in total expenditures than the three service functions, and *less than double* the tax-levy expenditures of the services. This of course reflects the enormous increase in intergovernmental aid and the increasing tendency to take advantage of matching funds grants by putting relatively more tax-levy expenditures toward service departments at the expense of the traditional areas.

The increase in tax-levy expenditures for both broad categories was about \$500 million in constant dollar terms (in current dollars, the traditional categories were upped about \$1.7 billion, the nontraditional about \$.8 billion). But for the latter, the rate of increase was *double* that of the former in current dollar terms, and about *two and one-half times* the rate in constant dollar terms. For hospitals, education, higher education, and sanitation, the amount of expenditures in constant dollar terms puts the departments back in the middle 1960s or before — for sanitation, 1976 tax-levy expenditures are 15 percent below that of 1971. All departments except police and welfare have been hit with less expenditures from the tax-levy portion since the 1975-76 cutbacks, in constant dollar terms — and police has barely held even, while welfare has increased only 11.5 percent since 1971.

Employment. The percentage of total employment for the traditional categories dropped from over 25 percent in 1961 to 21.5 percent in 1976; the percentage for the nontraditional functions rose from about 25 percent to 31.5 percent during that time. Only welfare and higher education increased their percentage — the others fell. More important, in terms of changes in employment within each department, only welfare and higher education increased dramatically in 15 years by the time the cuts took hold, and by the end of fiscal 1976, there were only 20 percent more police officers than in 1961. Fire and sanitation had 2 percent and 12 percent fewer men respectively, and teachers were at mid-1960s levels. Hospital employment showed virtually no increase. All four traditional categories were hit hardest by the layoffs and attrition imposed by MAC and the Emergency Financial Control Board. Fire and sanitation employment levels by the end of fiscal 1976 were 20 percent below 1971, police nearly 12 percent, and public school teachers 14 percent.

In more general terms, the total of full-time municipal employees shows the ravage of the city with full clarity. From Dec. 31, 1974 to March 31, 1977, the job rolls were cut by 60,841 people — 20.7 percent lopped off in 27

months. If the estimates in the city’s Executive Budget hold good for 1978, the reduction will come to 23 percent by next June.

At this point, Board of Education employment is only somewhat greater than 1969 levels; Department of Social Services is at 1967 levels; police, 1964 levels; fire, 1952 levels; and sanitation at 1929! And in terms of rates of increase or decrease in manpower for the various departments, sanitation and fire are consistently on the bottom, with fire, sanitation, police, and hospital rates considerably lower than the city-wide average, and way below the rates for higher education and welfare.

Labor Costs: Every study of New York City’s fiscal crisis attempts to pin much of the city’s woes on increases in employee compensation. The Economic Development Council, for example, points out that in 1976 the base pay of the sanit worker was more than \$15,731; with fringe benefits and pension, \$23,657; when “time off” is figured in at \$4,376, total compensation for a mere garbage collector comes to \$28,033! They note that between 1961 and 1973, the pay of city employees increased 129 percent, versus only 85.2 percent for workers in the private sector, excluding fringe and retirement benefits. In 1961 the average earnings of city employees equaled those of private sector employees; by 1973 they were 29 percent above. Taking police officers as an example, the Temporary Commission says:

Thus in the course of four years (1971-75), local taxes for police rose \$270 million, almost 50 percent; the compensation of police officers increased over 50 percent; and the number of police officers, and hours of police service delivered, actually declined... (by 2.1 percent and 3.7 percent respectively). Productivity declined very sharply.

The Temporary Commission says that from 1966 to 1971, labor costs doubled from \$2.1 billion to \$4 billion, with the largest increases coming in fringe and pension benefits. Taking police as the typical example, *real* pay of police increased 10.3 percent in the “depression” years from 1970 to 1976, while the average pay in the private sector ranged from a maximum 4.5 percent increase in some sectors to a 7.9 percent decrease in others. From 1961 to 1975, the average annual increase in city labor costs was 10.65 percent.

Table 5 gives an idea of the increase in labor costs in New York City. Indeed there have been very real gains, and it is no exaggeration to say that city employees pay is a good deal above that of the average employee in many other sectors. Contrary to the squawks from the Temporary Commission, however, the Commission’s own figures show a quite *unextraordinary* trend. The key is in real dollars, and in percentage changes in real dollar terms. While employment rose 23 percent during 1961-66, *real dollar* labor costs rose only 43 percent — not so far out of line, considering that about 20 percent or so went to new employees. The 1966-71 period certainly shows a sharp rise in benefits as the Commission charges. In the next four years 1971-75, however, employment increased only 4 percent while real labor costs rose less than 6 percent — meaning that “old” employees got only a 2 percent increase in benefits on the average.

Table 5

**Full-Time Employment and
Labor Costs in New York City,
1961-1975**
(in millions of dollars)

Fiscal Year	Employment	Employment % Change	Total Labor Costs (current \$)	Total Labor Costs % Change	Total Labor Costs (constant \$)	Total Labor Costs % Change
1961-75	200,706	46.7	1345.2	312.3	1533	124.3
1961-66	246,887	23.0	2098.2	56.0	2192	43.0
1966-71	283,103	14.7	3984.8	89.9	3251	48.3
1971-75	294,522	4.0	5545.7	39.2	3439	5.8

Note: Employment data as of Dec. 31 of each fiscal year
Source: Temporary Commission on City Finances

Furthermore, the fact that more dangerous and skilled layers, such as police, received 10 percent increases means that semi- and unskilled workers, for example hospital employees, gained nothing in real terms.

Any attempt to attribute the city's increased debt service to labor costs is, in sum, monetarist drivel. It is true that police officers received a 10.3 percent increase in real dollar terms from 1970-76 — but the debt collectors raked in a 27 percent increase from 1971 to 1976 alone. Average labor costs in the city did indeed increase 10.65 percent annually from 1961 to 1975 — but debt service increased 14 percent annually in the same period. And it is still going up, while labor costs have dropped in rate of increase. In fact labor cost, including pensions and fringe benefits, *fell* as a proportion of total expenditures, from 56 percent in 1965 to 42.4 percent in 1975.

If New York's economy is to be reestablished on the basis of *real wealth* and concomitant services — rather than maintenance of speculative real estate and debt values — far higher standards of living and compensation for the labor force would be the absolutely necessary norm. The difference between the city's wages bill and its debt service load is not primarily dollars and cents, but the fact that one adds to the real economic strength of New York, while the other destroys it.

E. The Capital Budget

This area is probably the foremost measure of the austerity and decay that have ripped New York City apart. The capital budget of any city or corporation is a key indicator of its future, or lack of one. In New York over the past 20 years, the capital budget can be described only as appalling. In general, most of the capital expenditures for large projects have been wasteful; those that haven't been outright boondoggles have been bandaid maintenance efforts on outmoded equipment and facilities that should have been scrapped and rebuilt long ago, e.g., the transit, water, and sewerage systems. In a sense, with such aggravated deterioration as New

York now has, anything short of massive capital expenditure can hardly create enough real wealth to justify the debt incurred.

As already noted, the increasing deficits in the city budgets resulted in accelerated looting of capital funds. In 1965, according to the Temporary Commission, the city "borrowed" only \$26 million from the city-funded portion of the capital budget, which amounted to just 3.6 percent of these funds. By the 1975 crunch, this had risen to \$724 million, or nearly 53 percent. In constant dollar terms, actual capital funding with city bonded revenues exceeded the 1965 figure of \$743 million only in 1973, and then only at \$793 million. By 1975, real capital spending was only \$652 million in current dollars, and barely \$400 million in constant dollars — nearly *half* of the already pitiful 1965 level! The results have been obvious: the 1960s and early 1970s have seen New York deteriorate into a crumbling hulk, replete with water and sewerage breaks, subway failures, and the other concomitants of a plunge into the Dark Ages. The "overspending" by the city hardly produced a boom in real capital spending.

Worse is the toll taken by the so-called budgetary remedies imposed by MAC and the Emergency Financial Control Board. (Table 6) While the amounts

Table 6

**Capital Budget
Under Current 3-Year Plan**
(in millions of dollars)

Fiscal/Year	Capital Spending* (cash outlay)	Amount Cut
1975	1760	
1976	1600	160
1977**	1100	500
1978**	930	170

* Both City bonded debt and intergovernmental aid
** Plan

borrowed for city operating expenses are to be phased out in 10 percent annual reductions, the current three-year financial plan has slated the capital program to be cut by 47 percent, to \$930 million. By 1978, about \$600 million of this will still go to operating expenses, leaving only \$300 million for capital formation (or at least maintenance). In fact, in 1977 only about \$141 million of city bonded debt went to capital expenditures — a mere \$77 million in constant dollars, or only 10 percent of 1965 expenditures! In 1978 this will be permitted to rise all the way to... \$130 million (in constant dollars).

A section titled "The City's Infrastructure — Future Needs and Priorities," the Final Report of the Temporary Commission on City Finances gives away the incompetent reasoning behind this "solution" to the city's fiscal crisis. The mayor anticipates spending about \$1 billion of city money for capital funds during the three-year capital program for fiscal 1979-81, says the report. If the same amount were raised each year through 1985, the city would have \$8 billion available for the capital budget. However, according to the phase-out plan regarding capital expenses, about \$3 billion of this would go to operating expenses, leaving \$5 billion for capital funds. It is clear that with this paltry amount of money, not much construction can be done, given the scope of costs simply for maintenance needs. Making a virtue out of this horrible discovery, the Commission concludes,

The basic priority should be for maintenance rather than new construction... Although maintenance under normal conditions should be an expense budget item, the type of maintenance discussed herein is of a capitalizable nature (!) designed to overcome the effects of past neglect. (!!)

The report continues:

...There appear to be strong economic development reasons supporting an investment by the city (in the Convention Center). The cases for construction of new transit lines and the third water tunnel do not seem as persuasive. Hospital and school construction, on the face of things, should not be the subject of capital expenditure because there is excess in both systems. The top priority... is the transit system because of the critical role it plays in the city's economy.

Meaning rebuilding the subways? Far from it. The Commission says outright that it is urging repair of streets and highways, with no mention of the subways.

Finally, from a "quality of life" rather than direct *economic or life-supporting perspective* (emphasis added), the city's park system deserves a high maintenance priority.

The report estimates that this will cost \$6.8 billion, of which \$2.2 billion will come from the state and federal governments, leaving the city share at \$4.6 billion. It then recommends that probably not all of this can be done because, based on past performances of cost overruns, \$5 billion will not be enough.

With this kind of mentality running New York, the city is doomed to be complete destruction of its basic infrastructure. Even a debt moratorium at this stage would be little more than a starting point. Literally tens of billions of dollars are needed to rectify what the debt has done to the city, and create the preconditions for a sound financial future.

ROHATYN'S REMEDY

III. DEBT AND AUSTERITY IN THE 1960s AND 1970s

As many honest economists will acknowledge, Felix Rohatyn's "successful" maneuverings during the past two and half years may have temporarily prevented a default, but have left the city in even worse financial condition than before the 1975 crunch. In addition to slashing the capital budget, MAC's budget cuts and debt "stretch-outs" have so exacerbated the city's economic plight that the choice is now either the most thoroughgoing *fascist* austerity or complete debt moratorium and massive real development. Nothing in between can stabilize the situation even temporarily, and only the second alternative can save it.

Table 7
MAC Debt Payment

	1978- 1995	1978- 1986	1987- 1995
Old Schedule			
Principle	\$5038		
Interest	2827		
Total	7865	\$6110	\$1750
Average per yr.	437	679	195
Stretched Schedule			
Principle	\$5038		
Interest	4715		
Total	9752	\$4720	\$5030
Average per yr.	542	525	559
Source: Municipal Assistance Corporation			

The outrageous incompetence of Rohatyn's financial acrobatics is demonstrated most efficiently by the fact that the debt and debt service crisis of New York City is worse than it was pre-Rohatyn, in 1975. Rohatyn's latest scheme — agreed to by the banks and pension funds — gets rid of outstanding short-term debt "once and for all" (!), and of the troublesome \$819 million of short-term notes that were involved in the invalidated moratorium, by having MAC assume over \$5 billion in outstanding city debt. To spread the payments out more evenly than originally planned, Rohatyn has concocted the financial scheme shown in *Table 7*.

Under this plan, the city will have to pay nearly \$2

billion *more* in debt service over the 18-year period, all of it in interest. This is 2 percent more than the total debt service under the old arrangement, and fully two-thirds more in interest. To "save" \$150 million per year in debt service payments the first nine years, the city will pay \$350 million *more* the next nine years. (!)

The Comptroller General's report on New York City released last April gives the verdict on Rohatyn's wizardry. The General Accounting Office report *conservatively* estimates a budget gap by 1985 of \$1 billion if the U.S. and city economy have "sustained growth," and a gap of \$1.5 billion if the pattern of stagflation continues. Given the already devastated local tax base and cut-backs in intergovernmental aid, they bluntly admit the impossibility of the situation: "The fiscal and economic base of New York City continues to deteriorate, and this deterioration is the root of the problem." Even more

immediate, the projected 1978 budget appears certain to have a deficit of well over \$1 billion.

The failure of the Rohatyn remedies is the lawful result of the fact that they are just a further stage of the city's terminal debt disease. The bankers' dictatorship in New York has, unfortunately, been given every opportunity to prove that no solution to the City's ills will come from this quarter, that in fact the city will be quite literally razed to the ground, if the debt-and-collapse cycle is allowed to continue long enough. And it has given the rest of the nation a striking preview of the results of the analogous policies of "pain and agony" austerity and slashes in real economic progress that Rohatyn and his political allies are demanding for the rest of the nation.

This report was prepared for the U.S. Labor Party by Stephen Parsons.

Stevenson, Schlesinger Sabotage Mexican Gas Pipeline

On Oct 19, Senator Adlai Stevenson III (D-III) introduced a resolution into Congress calling on the U.S. Eximbank to halt financing for Mexico's gas pipeline to the U.S. until the price of Mexican gas can be forced down. Interviews last week with the Senator's office and with the Energy Department indicate the move was coordinated directly with Energy Secretary Schlesinger.

Already, Mexican officials have warned that the Stevenson move may jeopardize the entire \$350 million Eximbank loan and, with it, hundreds of millions of dollars in orders for U.S. capital goods for the pipeline. Potential U.S. suppliers and some of the natural gas importers have complained bitterly at the linking of the Eximbank loan to price questions. They believe the price issue can be thrashed out at a later point.

The credit package drawn up in August was designed specifically for the \$1.5 billion pipeline under construction from Reforma, in southeast Mexico, to the Texas border-town, McAllen. Also included is an additional \$250 million Eximbank loan for collateral development of Mexico's national oil company, Pemex. The 825-mile pipeline, if not delayed, would provide U.S. consumers with 1 billion cubic feet of natural gas per day (cfd) in 1979 and more than 2 billion cfd by 1981, some four percent of current U.S. gas consumption.

This margin of Mexican gas could play an important role in preventing gas shortages this winter, if U.S. gas-import companies were reasonably certain of the 1979 timetable. Additional domestic reserves could then be tapped in the interim. The Stevenson-Schlesinger tactics, however, have totally disrupted the schedules, thus contributing directly to reduced energy supplies this winter. A Department of Energy official made it clear Oct. 26 that the Department of Energy (DOE) is fully prepared to simply shut off future Mexican gas imports if the price is "too high."

Senator Stevenson's suggested price of \$1.75 per thousand cubic feet is absurd. Canadian gas currently sells for \$2.16; Mexico is asking \$2.62, based on equivalent energy import costs for oil; liquified natural gas is imported at \$350. Mexico is willing to negotiate because it wants to export its gas, and U.S. capital-goods suppliers and the Eximbank itself are extremely anxious to push the deal through. However, Mexico will not submit to what it perceives as direct blackmail from the U.S. The Stevenson-Schlesinger efforts in this direction seem headed to wreck both the Eximbank loans and much longer-term U.S.-Mexico energy cooperation.

Stevenson's Office: Give Schlesinger Leverage

The following excerpts are taken from an Oct. 25 interview with an aide to Senator Stevenson.

Q: What was the purpose of Senator Stevenson's resolution if the period when Congress can act on this Eximbank loan has already passed?

A: Senator Stevenson's purpose was to suggest that the Eximbank, in further negotiations, should give more attention to the price factor in importing Mexican gas...Now the Secretary of Energy has to approve the import price of gas. We hope that a sense of Congress resolution will give the Energy Department more leverage in lowering the gas price.

Q: Have you sounded out Mexican reaction? The reports I have are that Mexico is extremely unhappy with the resolution and has indicated it might cancel the Eximbank deal entirely.

A: We have nothing direct from Mexico. But on the U.S. side, we've heard from export people afraid of losing the deal. You see, the potential U.S. exports are fairly interchangeable with European supplies. We've also heard from some of the gas transmission companies involved. Of course, we don't want to see the Eximbank deal fall through. We're hoping low-key pressure can be brought to bear.

Q: It certainly looks at this point like the entire loan could be jeopardized.

A: Well, the Senator feels very strongly on this price question. If the U.S. lets Mexico jack up its prices and doesn't contest it, then it leaves the door wide open to, let's say, the Saudis suddenly raising the price of oil — and the U.S. would not be in a position to do anything about it.

Q: Were you in touch with Schlesinger's office before introducing the resolution?

A: Yes, we checked with his people. We asked him if congressional support would help in getting the Mexican price down. His staff cooperated with us in providing price information.

DOE:

The Stevenson Resolution "Doesn't Hurt"

In an Oct. 26 interview, Department of Energy official Cecil Thompson explained the relationship of the DOE to the Mexican-U.S. gas pipeline stalemate, as follows:

Q: Does Secretary Schlesinger now have a role in negotiations with Mexico over gas prices?

A: There are no such negotiations at this moment. Negotiations are limited to Mexico and respective gas transmission companies.

Q: What about the Stevenson resolution? Is there a direct way the price question can be linked to the Eximbank loan?

A: There is no connection to the Eximbank loan. Stevenson's resolution is little more than a request that the Eximbank wait until there is formal regulatory review. There is no way the DOE could influence the matter directly.

Q: Stevenson's office has indicated they introduced their resolution in order to give Schlesinger more leverage in negotiating with Mexico.

A: Well, it is a legitimate question, what other alternatives Mexico really has and, therefore, if some "leverage," to use your term, cannot be brought to bear. My own view is that there is enough in terms of the deal that is good, so it should go through. ...As I understand it Eximbank is ready to finance even if the pipeline doesn't come up to the U.S. but only goes to Monterrey. The real question is whether any gas comes to the U.S. at all and at what price. I don't think the Stevenson resolution will push the matter one way or the other.

Q: But Diaz Serrano (director of Pemex — ed.) and other top government spokesmen in Mexico have reacted sharply against Stevenson's move, and stated clearly that Mexico will arrange financing and technology elsewhere rather than submit to U.S. conditions of this kind.

A: I hope the Mexicans are informed well enough not to give undue attention to the question in that way. Let me repeat that the main problem is not government to government but Pemex dealing with the individual companies.

Q: I thought the August letters of intent with six U.S. gas companies pretty much cleared the decks and subsequent negotiating was basically over secondary points.

A: I'm not so sure of that. The August agreements were just an okay initialed on the letters of intent — all subject to the companies' renegotiation.

Q: You don't think then that the question of the Eximbank loan should be linked to the price question?

A: Let me put it this way: the U.S. market is a far, far more important lever than Eximbank credits.

Q: Have you been in touch with Senator Stevenson's office to discourage him?

A: Oh no! We are not discouraging the Stevenson move. We don't need it, but I don't think it hurts. Let me just say again that it is the size of the market in its own right that will hold Mexico's attention.

Q: Once formal contracts are sent to the DOE, how long do you think the Secretary's review will take?

A: Well, we're just putting the procedures together. All I can say in the Mexico case is that there will be no hasty decision.

Q: The gas price that Mexico is asking, \$2.62 per thousand cubic feet, would not appear to be so way out of line that any confrontationist posture with Mexico would be necessary. As I understand it, liquified natural gas (LNG) imports are authorized at a substantially higher level.

A: Let me make this very clear: it would be unwise and imprudent for anyone to assume that the U.S. will take natural gas at any price. If Mexico should decide to build the pipeline to Monterrey, fine. Then at some later point they could send more gas to the U.S.

Export Executive:

Exporters Out In The Cold

The following interview with an executive of a pipeline exporting firm is illustrative of U.S. industry's concern over the potential collapse of the Mexican-U.S. pipeline deal.

Q: What is your view of the Stevenson-Schlesinger attempt to block the Eximbank loan until Mexico's price can be forced down?

A: It just makes no sense any way you look at it. They can't be looking to the welfare of the U.S. We're going to lose jobs and important production contracts if the loan doesn't go through. And Mexico has made it clear it is ready to go elsewhere. There's no question that the matter is being handled extremely poorly. If it was Japan going after contracts, you can bet the government would be backing up every export firm to the hilt. But we're sitting around on our hands in the U.S., at a time when we need more and better employment. It seems a fair enough way to price gas, ... the way Mexico is doing. Hell's bells, Mexico doesn't really need us. It can get the thing built and financed elsewhere....The bottom line on the thing is this: the gas is eventually going to get into the U.S., because the U.S. needs it. In the meantime, it is U.S. export producers who will be out in the cold.

French Oil Journal Urges Revised U.S. Energy Program

The French oil industry magazine Bulletin de L'Industrie Pétrolière called on President Carter to revise his current energy program in its Oct. 20 issue. In an article titled "Toward a Revision of Carter's Energy Program?" the journal described the coalition of Republican and conservative Democratic Congressmen who would support a nuclear energy program, and took note of the role of the U.S. Labor Party (mistakenly termed the American Labor Party) as the "driving force" of the progrowth alliance.

Bulletin De L'Energie Petroliere

No. 3452, Oct. 20

After President Carter's spectacular attack against the U.S. oil industry just a week ago, the situation on this front has calmed down. (Since Mr. Carter speaks of a genuine war, let's keep this war terminology.) We have analyzed the White House incumbent's position and the first reactions of some oil companies. Now that the dust has settled a bit we begin to see the problem in its two dimensions: that of the President's general policy and that of his energy program proper.

As a matter of fact, all the observers of the U.S. political arena agree that Jimmy Carter is confronted with a mounting opposition to his conceptions...

But there is a second element which we must take into account. U.S. opinion and political circles are faced with two alternatives: that of Mr. Carter, who puts the emphasis on energy conservation (and is therefore accused of advocating zero growth), and one which consists in preaching the continuation of an expansionist policy by arguing that it is possible through greater reliance on nuclear energy. It is a fact that Carter's demagogical attitude toward the oilmen, as expressed in last week's press conference, is fought by another demagogy, that of a coalition including the conservative wing of the Democratic Party, the whole Republican Party, but also unions and other political factions as the American (sic) Labor Party, which seems to be the driving force of this counteroffensive; to our knowledge the coalition seems to gain increasing support in the country...

According to an article published early this month in the *Executive Intelligence Review*, one of the publications of the American Labor Party, members of Congress belonging to the conservative wing of the Democratic Party, Carter's party, are pressuring for a thorough overhaul of M. Carter's energy plan with the primary objective of stressing production rather than conservation of energy. This call for revision was also apparent in Exxon Chairman C. Gavin's declarations following Mr. Carter's press conference...

Beyond all polemics concerning the dispositions of the Carter energy program, the question remains whether

the oil industry should continue its research effort (an idea which is also to be found on this side of the Atlantic), or whether the oil companies should somehow become implementation tools carrying research with public funds. For some governments do hope to induce the producing countries, be they members of OPEC or not, to recycle their oil revenues in research for new sources of energy in lieu of the oil companies — since the policy of OPEC (and of some countries) deprives them of the essential means necessary to ensure world energy supply...

Eximbank:

Life Will Be Very Complicated

An Eximbank official had the following comments on the Stevenson resolution:

Q: ... You have seen the Stevenson resolution? What kind of prices do you think he's talking about?

A: I've seen bits and pieces of it. What I understand is that the "reasonable prices" he is talking about are \$1.75 per thousand cubic feet. That is, of course, way out of line. But I guess it establishes a bargaining range.

Q: Am I correct in assuming that the loan from the Eximbank's viewpoint is separate from the question of pricing? And that Schlesinger at the DOE does not have any direct say-so over the loan?

A: That is correct. But the Concurrent Resolution No.59 (Stevenson's resolution) is going to make life for us very complicated. There is going to be pressure, saying that Eximbank should hold off until the price is "satisfactory."

Q: What I understand from Stevenson's office is that they introduced the resolution explicitly in order to give Schlesinger more leverage in beating down the Mexican price.

A: That is not unreasonable to assume.

Q: What does Eximbank feel about the price issue?

A: At the time we first were working on the project, last July and August, price was no problem. We looked at Pemex as a whole, its ability to meet loan repayments, and there was no question that they would be able to pay the loan back. And private banks were very eager to lend. Now, the injection of the price question in this way, has created a potential political explosion in Mexico.

Q: Does the Stevenson resolution cover both the direct \$340 million Eximbank loan for the pipeline and the additional \$250 million for corollary Pemex projects?

A: The wording is sufficiently vague so that both may be covered.

France, West Germany Form Axis For Energy, Economic Cooperation

Practical, thoroughgoing collaboration between West Germany and France in halting terrorist blackmail attempts and apprehending terrorist criminals has sparked a fundamental shift in the relations between these two nations. Held apart ever since British influence succeeded in undermining an alliance between General de Gaulle and Konrad Adenauer in the middle of the last decade, West Germany and France committed themselves this week to formulate a joint economic policy for nuclear development and economic expansion, counterposed to British demands to practice inflationary "fiscal stimulation" and undermine the very fabric of the European Economic Community.

A firm alliance between Europe's two most powerful countries has been in the offing for some months, but a number of factors helped put it into place only recently. Most important of these is the Soviet Union's full approval of the alliance, an attitude which has already extended to active collaboration in rooting out terrorist networks within Eastern Europe, as well as with intensified financial and economic cooperation. French Defense Minister Bourges's groundbreaking visit to Moscow this week, and this December's visit to Bonn by Soviet leader Brezhnev indicate that on critical issues Paris, Bonn, and Moscow are — in French Prime Minister Barre's words — "thinking together about the future."

*The alliance was also made possible by the defeat of the "left wing," proterrorist groups and support networks, which have until now successfully poisoned the ideological atmosphere with talk about "a rise of fascism" in West Germany and with "Germanophobia" in France. Although such proterrorist press conduits as *Le Monde* and *Frankfurter Rundschau* continue along these lines, the "all-party coalition" in Bonn and a programmatic Gaullist-Communist alliance in France is now ensuring that their influence remains minimal. West Germany is well on the way to resuming construction on the nuclear projects halted by environmentalists, thereby opening up prospects of intense Franco-German collaboration on conventional and fast-breeder projects, as well as on nuclear fusion.*

Schmidt-Barre Talks:

"Thinking About The Future"

French Prime Minister Raymond Barre arrived in the West German capital Oct. 20 for two days of working dis-

cussions with West German Chancellor Helmut Schmidt. The visit marks the beginning in a new cooperative period of Franco-German relations.

At a welcome dinner, Barre toasted Schmidt with the following words: "Overcoming the trials of our history, we have decided to cooperate with West Germany to build a communal Europe, and to work towards peace in the world... We see what we have done since 1950... We have become accustomed to living together, working together, and thinking together about the future."

More than a goodwill mission, Barre's visit was a strategic session of the highest significance. During the first two-hour meeting, the two leaders concluded a "secret pact" to contain and exterminate the terror plague, according to press sources. Other issues foremost in the talks, according to the Paris financial daily *Les Echos*, were the need to "vastly enlarge cooperation on the fast breeder and high-temperature nuclear reactors," and to adopt common energy development and export policies. Both nations are campaigning for nuclear-based industrial development, and are considering Soviet President Brezhnev's proposal for pan-European conferences on energy and transportation, according to the French daily *L'Aurore*. The "new world economic order" was also on the agenda, the Parisian paper *Le Matin* reported.

At a press conference, Barre was needled with questions about "rumors" that cooperation between West German and French police had not been adequate during the Baader-Meinhof kidnapping of West German industrialist Hanns-Martin Schleyer, and had caused friction between the two countries. Barre denied this, responding that cooperation has been excellent. "Would you please remember that it was we who caught Croissant," he said, in reference to the lawyer who is now awaiting extradition to West Germany for his collaboration with the Baader-Meinhof group.

U.S. Press Break On Franco-German Alliance

With the exception of this news service, the *Baltimore Sun* Oct. 25 is the only major newspaper in the U.S. to report on the emerging Franco-German political alliance. The *Sun's* article reads in part:

"Paris — Relations between Europe's two largest countries reached one of their highest postwar levels in the past week's antiterrorist efforts.

"The dramatic hijacking rescue in Somalia, extraordinary police cooperation, and, indirectly, the sharp dispute on the French left have helped lower the tone and scope of anti-German attitudes in leftwing parties and publications here.

"Even the suspicious suicides of three leading terrorists has not produced a replay of recent articles in the French press that went so far as to try to justify the terrorist activities.

"I would say relations between France and West Germany are as good now as at any time since the reconciliation between de Gaulle and Adenauer," one veteran observer said."

Schmidt Proclaims Humanist Policies

In a series of statements and interviews this week, West German Chancellor Helmut Schmidt reaffirmed that neither international terrorism nor threats from the United States and Britain will alter his government's policies of energy growth and expansion of industrial capacity. Addressing members of the Trilateral Commission in Bonn Oct. 26, the Chancellor said that "inflation is a betrayal of the world's economy. It does not create the trust we need from industry and workers, but rather helps to destroy it." Echoing the thoughts of Charles de Gaulle, Schmidt called for a "Europe of the Fatherlands," instead of the "total integration" of Europe demanded by Britain to wreck Europe's economy.

Interviewed by the daily *Süddeutsche Zeitung* a few days earlier, Schmidt announced his final break with the British monetarists' heroes, Nazi Finance Minister Hjalmar Horace Greeley Schacht and John Maynard Keynes: "We should not have a policy based exclusively on Keynes and Schacht, or on only patent recipes à la Keynes and Schacht... We need a whole series of concepts — stimulate private investment, public investment, tax relief, etc... I warn about the threat of a lack of skilled labor in the 1990s — industry must begin right now to train the labor force for that time."

Although Schmidt's policies have been shifting away from monetarism approximately since U.S. President Carter's inauguration, this statement is his first official reversal of his endorsement of Schacht 18 months ago. During a May 12, 1976 televised parliamentary debate, Schmidt had said that "We must concede with the greatest pain that, albeit with the most terrifying goals and the worst instruments, in the final analysis, it was first Schacht and Hitler who drew the correct consequences from the monetary standpoint."

In the *Süddeutsche Zeitung* interview Schmidt promised that his government will continue on its anti-inflationary course, and that he is optimistic because in comparison to other nations, West Germany has over the past four years created an excellent basis for fending off a spiraling depression in 1978. In addition, he said, the overwhelming majority of the West German population does not feel threatened by the economic situation, as indicated by their support of the government's conduct in ending last week's terrorist hijacking.

Asked whether his conduct will in any way be affected

by the country's five economic institutes — all of which are calling for economic "stimulation" measures — he said, "These gentlemen have proven wrong so many times in the past that we aren't going to be bothered by them. The only positive aspect of their studies is to show what *could*, but will definitely *not* happen."

In another interview with the same newspaper, Schmidt was questioned about his further plans to eradicate international terrorism. "First we will present to our domestic and also to our foreign public every detail we know about the international links of terrorism," he said. "Then we will move for an international resolution on hijacking in the United Nations, and insist on the need for additional special checking of West German airplanes at foreign airports. Any country which does not prove willing to do so will not be serviced by West German planes."

Schmidt was also asked to comment on Social Democratic Party Chairman Willy Brandt's criticism that the government is currently too concerned about its "all party" policies and too little about the differences between ruling coalition and opposition groupings. With barely concealed hostility, he diplomatically replied that "Willy Brandt is right... but against terrorism, a joint all-party move is really essential."

Speaking at a trade union conference Oct. 24, the Chancellor claimed that the unions are now fully behind his policies. "Foreign trade unionists should take into account that neither the Bonn government, nor the trade unions here will go for inflationary policies." Trade union support for Schmidt's pronuclear efforts will culminate in a mass demonstration to be held early in November.

West Germany, Bulgaria Sign Joint Antiterror Declaration

Concluding his two-day official visit to Bulgaria, West Germany's Foreign Minister Hans-Dietrich Genscher announced that in addition to discussing questions of economic cooperation, he and State Council Chairman Todor Zhivkov are issuing a joint statement denouncing international terrorism. Genscher commented that this is the first time his country has made any such declarations with an Eastern European country. "I feel so encouraged," he added, "that I will push for a resolution to be placed into the Belgrade meeting on security and cooperation" in Belgrade, site of this year's Conference on Security and Cooperation in Europe.

Another East European country, Czechoslovakia, has joined with a number of Western nations to tighten up security measures at their airport in Prague.

New World Order On Agenda Of Moscow Talks With French Officials

The visit of French Defense Minister Yvon Bourges to the USSR Oct. 20-25 was the occasion of an exceptional show of friendship towards France by the Soviets. The conservative paper *Le Figaro* best described on Oct. 25

the welcome: "Mr. Bourges was given a tour of the Baikonour space center, something reserved up to now for very high rank officials, normally heads of state. On the French side only former Presidents General de Gaulle and Pompidou had been able to visit the Soviet center. Furthermore Mr. Bourges was received yesterday by the Soviet top leader Leonid Brezhnev, something which had never happened to any Western country's defense minister. The Kremlin reserves this honor for heads of state or, on occasions, for some foreign ministers. On the military level Mr. Bourges was spoiled with shows of new Soviet military hardware."

Coinciding with the Bourges visit, a delegation of the French bank Crédit Lyonnais, led by former presidential advisor Brossolette, has been meeting in Moscow with directors of the Gosbank, as well as Prime Minister Kosygin and other high level officials. The subject of the talks were broad ranging, from means of financing bilateral trade, to joint Franco-Soviet investments in Third World countries. Well-informed sources close to the French government report that the two delegations discussed the feasibility of acting jointly for a new world economic order, with financial and other arrangements to open the way for a world industrial recovery and development. French sources said specifically that the proposal for an International Development Bank put forth by U.S. Labor Party Chairman Lyndon H. LaRouche in April 1975 was being used as a model for a new world order.

Brezhnev On European Detente

The following remarks on disarmament in Europe were made by Soviet President Brezhnev Oct. 21. Brezhnev was welcoming Moraji Desai, the visiting Prime Minister of India.

As for Europe, the obvious task is to fulfill political detente with military détente. What can be done for this? We think the following can be done:

- * Conclude among the participants of the all-European conferences a treaty on not making first use of nuclear weapons against each other. The draft of such a treaty has already been submitted by the Warsaw Treaty nations. It is understood that if all the adherents of such an agreement observe it, this will completely preclude the outbreak of nuclear war in Europe, as well as between European countries and the USA and Canada.

- * To agree, at least, not to expand the military-political groupings and alliances in Europe by adding new members to them.

- * To consistently implement the measures provided in the Helsinki final declaration...

If the two countries from the southern part of the Mediterranean basin want the measures of military trust provided for in the final Helsinki Declaration to encompass this region, which is adjacent to Europe, then we would regard this with understanding.

This is the platform of actions we have advanced for consolidating military détente in Europe.

Of course, if other states have constructive thoughts in

this area, we will regard them with all attention and seriousness.

All these problems could be comprehensively discussed in the near future — parallel with the Vienna negotiations — at special consultations of all the states which adhere to the Conference on Security and Cooperation in Europe (CSCE).

French Economic Planner Denounces Low Production Policies

Jean Ripert, head of the French economic planning agency Commissariat du Plan did not mince words in denouncing the two fraudulent economic strategies now on the market in France in an Oct. 22 *Le Figaro* article. Ripert criticized the "slow growth" based on the "low-import, low-productivity services sector of the economy," which can only lead to economic stagnation, deterioration of the public services, increasing tax burden, and additional unemployment. Secondly, he attacked protectionism — "the return to administrative methods of distributing physical resources" — which will bring about a "drop in living standards, greater centralization and a new phase of prolonged stagnation similar to that of the 1930s." His statements are considered reflective of the opinions of French Prime Minister Raymond Barre.

"The difficulties ahead ... call for ... a national mobilization," Ripert continued, "analogous to that evoked by the reconstruction of our country between 1945 and 1950 and the coming of large generations just after the decolonization period between 1958 and 1965. However, the more or less rapid success of such an effort depends on the implementation of new forms of economic cooperation.

"The meaning and usefulness of economic planning today are in this paradox.

"Only long term, reciprocal arrangements between nations will be capable of removing the perverse mechanisms which accentuate the difficulties of deficit countries, developed or not, and thus could lead to general protectionism...

"Monetary agreements aimed at fostering investments in the weaker countries, and at stabilizing the parities of their currencies seem to be the best chance, beyond national efforts to that effect, for reestablishing the confidence of European investors and for bringing about a durable recovery of productive investments. A European-wide economic planning — and in some areas an international one — must be devised, which will be based not on the harmonization of growth rates ... but on mutual commitments made by the countries involved.

"In this context, the successive phases which will give sense to national effort remain to be defined. This is the role of economic planning...."

Chirac: Mitterrand Is Dangerous

At a rally in Paris Oct. 23, RPR President Jacques Chirac has made it clear that his "neo-Gaullist" party is

bent on winning the coming legislative elections by reviving the program that made De Gaulle's success: right to work, "democratic economic planning" through which to put the economy back on its feet, (workers') "participation" and fight against unemployment.

"Everything must be done to recapture the thousands of working-class votes that supported General de Gaulle," exclaimed one Gaullist député, echoing RPR

leader Yves Guéna's contention a few days before that "only Gaullism is capable of rallying the working-class layers without whose support the majority will be beaten by the left-wing parties, be they united or not."

Chirac also escalated his offensive against the Socialist Party whose leader, François Mitterrand, he denounced as "the greatest danger France is confronted with at this moment."

Troubled Spanish Economy Turns To Triangular Trade Expansion

Spanish President Adolfo Suárez took Spain's entire political spectrum by surprise earlier this month, when he invited the leaders of all political parties represented in Parliament to a summit to negotiate a government program that would allow his party, the Union of the Democratic Center (UDC), to rule the country with the opposition's extragovernmental support. Suárez's initiative, which stands against a background of terrorist violence and accelerating economic deterioration, was welcomed by the main opposition parties — the Spanish Socialist Workers Party and the Spanish Communist Party — as well as by the country's press and major trade unions.

SPAIN

The program under negotiation includes economic policy, an antiterrorism bill that will reorganize security forces and create a specialized antiterrorism unit, and the reformation of institutions inherited from Franco's regime. The first session of the all-party meeting, devoted to economic policy, was held Oct. 15.

Suárez skillfully prepared the way to the convocation of the summit at Moncloa, the presidential palace. Prior to the meeting, Suárez struck a resounding success by forcing the opposition to accept an amnesty bill which, contrary to the Communist and Socialist parties total amnesty proposal, will not include terrorists from organizations such as GRAPO, the Basque separatist ETA, and extremist right-wing groups. Suárez also pulled together a cross-party consensus with his restoration of Catalonia's autonomous government, the Generalitat. The decree restoring the Generalitat, however, makes it very clear that the "autonomy" issue must be understood merely as a transfer from the central to the regional government of those responsibilities which do not hinge on global national or international matters, and underlines that it is "provisional in character" and can be annulled by the President for state security reasons.

The Moncloa Summit

The significance of the Moncloa Summit as a means of strengthening Suárez's government cannot be overestimated. Every since he was appointed President, but especially over the last three months, Suárez had been under increasing attack by the Socialist Workers Party, a satellite of the Second (Socialist) International. With the same Second International line of "neofascism" used in West Germany by Willy Brandt et al. against the government of Chancellor Helmut Schmidt, the Socialist Workers Party attacked Suárez's "Francoist past" as proof of the President's "insincerity" regarding the establishment of a democratic government in Spain. The Socialists conducted a strong "antirepression" campaign focused against Suárez's Interior Minister, Martin Villa, in which nothing less than the minister's head was demanded. Rumors and counterrumors of a government crisis and possible military intervention developed almost daily. Simultaneously, monetarist mouthpieces such as *Foreign Affairs* heralded Felipe Gonzalez — the Socialist Workers head known among informed circles in Europe as "el morenito de Bonn" (Bonn's dark-skinned boy) for being a "Willy Brandt creation" — as the alternative leader for Spain given the "expected" crisis in the Suárez government.

Communist head Santiago Carrillo, for his part, was bidding on a mish-mash "coalition" government whereby each party, from left to right, would share a piece of the power pie to ensure a perpetual fight over policy as Spain sank deeper and deeper into chaos. Except for the neofascist Alianza Popular, Spain's parties were deaf to Eurocommunist Carrillo's call.

As the date of the summit approached, a wave of coordinated violence broke out, culminating in the assassination of the president of the Vizcaine Deputy House, Augusto Unceta, by a terrorist commando Oct. 15 — the day of the first session of the Moncloa summit. The same day, however, 15 top leaders of the terrorist GRAPO were rounded up in Alicante, and several other terrorists were captured elsewhere in the country, in an operation coordinated by the Interior Minister.

The standard for Suárez and the Moncloa Summit was stated editorially by the Spanish daily *ABC*: "The con-

struction of a democratic system starting from scratch (in postwar Germany and Italy) ... was the work of two men and two parties: Konrad Adenauer and the CDU, and Alcide de Gasperi and the DCI.... Democracy, said de Gaulle, does not consist of expressing contradictions, but in indicating a direction."

The program to come out of Moncloa is expected to be just that. An agreement on economic policy has already been achieved and Suarez will present the full program for Parliament's approval Oct. 25. Although the details of the program have not yet been made public, it has been reported that it includes important reforms of the financial, agriculture, and social security systems, taxing policy, state-owned holdings, and wage policy. The programs' energy measures are known to include the creation of a state-owned oil holding initially taking over 55 percent of oil refinery, exploitation, transport, distribution, and marketing activities. The possibility of nationalizing electric power in the future is being studied by the Industry Ministry.

The Spanish Miracle Is Over

Beginning in the late 1950s and all through the 1960s, Spain underwent a substantial expansion of industry which has made the country the 10th most industrialized nation in the world. After a prolonged period of so-called autarchy, Spain opened up to the world in order to encourage its own economic development. The peseta was made convertible and foreign investments were fostered. The results were immediately visible. From 1960 to 1973 — when oil prices quadrupled — the annual rate of growth of Spain's GNP was 7.6 percent, while industrial production was increasing at more than 11 percent annually according to the French newspaper *Les Echos*.

There was a balance of payments surplus in 1973 of almost \$1.8 billion, while the currency reserves amounted to nearly \$6.8 billion. A \$3.6 billion deficit in the balance of trade figures was largely compensated for through tourism, investments in Spain, and the large Spanish labor force employed in the rest of Europe, bringing foreign currencies home.

The 1973 oil crisis threw Spain into perhaps its worst crisis during the postwar period, since 60 percent of Spain's energy comes from oil. Because of this, the trade deficit jumped to \$7 billion in 1974, \$7.16 billion in 1975,

and \$7.52 billion in 1976, according to Banco de Bilbao. Simultaneously, the economic depression affecting the rest of Europe forced the Spanish "guest workers" to begin coming home to join the already swollen ranks of the unemployed.

The deficit in the balance of payments worsened over \$7 billion in 1974 and 1975; and \$1 billion in 1976. As a result of the combined accumulated deficits in the balance of payment and trade, the foreign debt increased from \$10.8 billion in 1976 to \$14 billion in 1977. Meanwhile, inflation has been on the rise: 16 percent in 1974; 17 percent in 1975 and 1976; and 30 percent in 1977. The inflation rate for 1978 is expected to be 40 percent.

In what one Spanish industrialist described in the Venezuelan newspaper *El Nacional* as "the worst panorama of bankruptcies since the civil war," countless small and medium businesses have either shut down or are on the verge of collapse. Official figures say 10 percent of the labor force of 13 million is already unemployed.

Ironically, Spain has an ambitious and advanced nuclear energy program, significant steel and machine tool sectors, and is an exporter of industrial plant and equipment. It also has a vast agricultural potential. Spain has recently concluded trade deals with Venezuela, which include nuclear technology — to be followed by a nuclear cooperation treaty with Argentina within the year — as well as recent deals with Mexico, under which Mexican oil and petrochemical technology will be exchanged for Spanish technology in several fields. These deals are indications of the important role Spain can play as the European bridge to Latin America and the rest of the Third World in the context of a new international economic order.

The heavy French and West German investment in Spain's heavy industry and nuclear program must be used by those countries as the leverage to bring Spain into an alliance for a high-technology industrialized Europe as a counterpole to the agricultural slave-labor projects being proposed by Britain's Jenkins. The traditional Spanish banking ties with the Arab countries constitute a unique asset which can be used to consolidate a European policy for industrial development backed by Arab oil.

— R.D. Morales

Israeli Hawks Jeopardizing Geneva

As the governments of the United States, the Soviet Union, and Western Europe proceeded this week to create conditions for the reconvening of a Geneva conference for a Middle East peace settlement (see *U.S. Report*), warhawk factions in Israel are preparing a contingency plan to launch "a war of annihilation against Egypt and Syria," according to the Oct. 26 *Washington Post*. *Post* reporter Jim Hoagland claims that Israeli Defense Minister Ezer Weizman's strategy in a new war "will be to destroy the two main Arab armies so quickly and completely that the Arabs will not present a military threat to Israel for the next ten years." The article also states that the intent of the Israeli strategy is "to make its armed forces invulnerable to pressure from Washington."

Arab response has been unequivocal. Unless Israeli intransigence on the crucial Palestinian issue is reduced, said Saudi Arabian Foreign Minister Prince Saud in Washington Oct. 25-26, "a general breakdown and war, possibly even triggering World War III," will occur, reports the Overseas News Agency. In meetings last week with President Carter and Administration officials in Washington, Saudi Arabian Foreign Minister Prince Saud reaffirmed his country's commitment to the Palestine Liberation Organization and called for a new United Nations resolution to support Palestinian rights.

Pressure on the Israelis is coming from all sides. The Soviet Ambassador to Bonn announced that the USSR is prepared to reestablish relations with the Israeli government — severed since the 1967 war — provided that the shape of a fair settlement is accepted by Israel. PLO Foreign Minister Farouk Kaddoumi will visit Moscow in the near future to discuss the formation of a Palestinian government-in-exile, which could open the way for a West Bank state. Israel has so far shown no willingness to discuss such an option.

Exacerbating Israel's refusal to negotiate is the official entry into Israeli Prime Minister Begin's government of the Democratic Movement for Change, led by former Gen. Yigal Yadin and composed of veterans from Israeli military intelligence known for their advocacy of a strike against Arab oil fields.

Saudi Foreign Minister: Palestinian State a Necessity

The following excerpts are from the interview by Newsweek Magazine with Saudi Arabian Foreign Minister Prince Saud:

Q: Do you believe that we will see a Geneva conference this year?

A: I see some signs for optimism. America's seriousness and your joint statement with the USSR, coupled with the serious attitude of the Arab countries, all mean that there is something new and positive in the air.

Q: How should the Palestinians be represented at Geneva?

A: By the PLO, either sitting individually or in an Arab delegation. . . . The legitimate representatives of the Palestinians have to be at Geneva or it will be a meaningless exercise.

Q: What is your definition of real peace?

A: Israel has to achieve acceptance in the area and then identify with its own region, the Middle East. The basic criterion . . . is a settlement with the Palestinians — the creation of an independent Palestinian state. That will lead to the normalization of the Palestinian-Israeli relations, which is essential to normalization with the rest of the Arab world. Without it, there is no possibility for . . . normalization.

Q: Could such a state be viable?

A: All Arab states, Saudi Arabia included, would help ensure such a state's viability with economic aid.

Q: Surely such a state would be a twin time bomb ticking away against both Israel and . . . Jordan?

A: I can't speak for the Israelis. But from discussions I have held with His Majesty King Hussein, such a state would not necessarily be a time bomb.

Q: What can you say that you think would convince the world that Saudi Arabia and the three Arab confrontation states are ready for real peace treaties if the Israelis were to pull back to the 1967 lines with the minor rectifications envisaged by President Carter?

A: I can vouch on the basis of my own private conversations that they could not be more serious about peace. Take, for instance, President Sadat's commitment to peace in the area. It is obvious that Egypt's internal situation dictates real peace.

Q: What about Syria?

A: President Assad has said and told me that if the Israelis are ready to withdraw from the occupied territories and give the Palestinians real rights, there will be real peace throughout the region. Compare that to Israeli statements which repeatedly make clear they will not negotiate with the Palestinians or agree to a Palestinian state or entity.

Yadin: A Branch of Military Intelligence

The following excerpts from an interview with the chairman of the department of political science at a major east coast university indicate that Yigal Yadin's Democratic Movement for Change is less of a political party than it is an intelligence operation:

"Yadin and others, like Gen. Tal, are from the academic, professorial Tel Aviv University and Hebrew University circles. They represent the old Intelligence Division of the military. They are a different breed than Dayan and Sharon, the career generals. The Democratic Movement for Change (DMC) people generally, including Meir Amit (former chief of military intelligence) are part of this Intelligence Division group. It is a closed circle. When I was there I talked to them, and I asked them: 'Aren't you isolating yourselves?' And they said, 'No, we're trying to form a broad-based movement, and that's why we're including people like Amnon Rubinstein (who just quit the DMC over Yadin's decision to join the government — ed.) in the DMC.' Yariv (former head of intelligence), although he is a close friend of theirs, is not directly in the inner group.

"Last week, in Washington, Yadin's people asked me:

'Should we go into the government?' I told them that I thought that if they wanted to curb Dayan, then they'd have to go in. 'You have to oppose Dayan's Debating Society,' I told them.

"As for Dayan, he believes in the status quo: no changes in the West Bank; the Palestinians do not exist, just villagers; leave the open bridges open, and stay put. But the DMC, while they are more moderate, will not accept a Palestinian state. They favor the old Allon Plan. They want the West Bank to be under Israeli security, and to bring Jordan back onto the West Bank — and to keep the PLO out. They want to satisfy the Syrians by mediating that relationship through Jordan, through the Jordan-Syria confederation. They want to *channel* the energy of the Palestinians. Dayan wants to sit on them.

"No, Yadin is not backed by Brzezinski. Not at all. . . .

"Amit is not the only one who has called for moving against the oil fields. Hebrew University is the center of that stuff. And the DMC people, as Intelligence people, must have been involved when the plans for that were drawn up in 1973-74 — but that, you see, was under Dayan as Defense Minister. So they worked together. Do you know that in 1973 or so the Israelis sent a Reshev-class missile boat to the very mouth of the Persian Gulf, to 'show the flag'? Just to let the Saudis and the Sultan of Oman know. . . ."

Gulf States Close Ranks Against Threat Of Terrorism, Invasion

U.S. Treasury Secretary Michael Blumenthal arrived in Kuwait this week only days after his hosts and their oil-producing neighbors in the United Arab Emirates had begun a public, if diplomatic, stink about Energy Czar James Schlesinger's mooted plans to invade the Persian Gulf oilfields. Blumenthal began the Kuwaiti leg of his tour of Mideast oil-producing nations as the Kuwaiti press also warned of a possible terrorist attack on an oil tanker passing through the narrow Straits of Hormuz at the mouth of the Persian Gulf — an incident which could easily block oil flows from the region. With either a foreign invasion or such a terrorist act as options available to London and its U.S. allies like Schlesinger and Blumenthal, the Gulf states have begun to take strident security measures. The urgency of the situation is prompting increased cooperation among the eight Arab Gulf states and their erstwhile regional adversary Iran.

According to the *Weekly Arabia and the Gulf*, Kuwait has established agreements with Iran and its Arab Gulf neighbors to jointly secure the sea lanes of the Gulf from future terrorism. Noteworthy in such an effort is Iran's

role in working with West Germany and France in establishing an international body through the United Nations to combat terrorism.

The assassination this week of the highly respected Deputy Foreign Minister of the UAE capital of Abu Dhabi underscores the imminent terrorist threat in the Gulf. Banking sources have confirmed that the murder, reported as intended for the visiting Syrian Foreign Minister Khaddam, was an expression of Britain's strong desire to force its rival, France, out of the Persian Gulf. The United Emirates have recently signed significant cooperation deals with the French state-owned oil company CFP, pledging a sizeable expansion of oil output. At the same time, both the UAE and Saudi Arabia have given their respective oil concessionaires the word that official government policy is expanded oil production for additional future crude output. Iran too has engaged in new exploration. Such developments do not bode well for the energy conservationist faction of either London or Washington.

Libya Leads Drive For Euro-Maghreb Unity

Horn of Africa

On Sept. 25, Libyan President Muammar Qaddafi announced in a front-page interview in the French daily *Le Monde* that "only a confederation of North African (Maghreb) states could definitively settle the western Sahara crisis." In the same interview, Qaddafi also vowed to devote his efforts toward mediating the "conflicts in the Horn of Africa." The reverberations of this statement have already changed the geopolitical structure from Sudan to Morocco, as Arab statesmen have begun to heed Qaddafi's suggestions by rejecting their internecine feuds and adopting a peacemaking perspective of economic development.

The Libyan call for inter-Arab unity echoed through the corridors of Europe where a Franco-Soviet alliance has formed in support of Mediterranean security and economic cooperation. Two interlocking meetings, the Euro-Arab dialogue, held last week in Brussels, and the ongoing Belgrade Conference on Economic Security and Cooperation, devoted agenda priority to the Europeans' role in the economic development of the Maghreb.

Arab Detente through Development

Qaddafi's strategy of combining economic development and personal alliances as a weapon against political conflict has been eminently successful in the case of Tunisia.

In early September, Mohamed Masmoudi, the former Tunisian Foreign Minister who now lives in exile in France, announced that he was returning to Tunisia to complete the unification with Libya that he had masterminded in 1974. He also declared that his activities would be coordinated with Qaddafi for Maghreb unity. Reaction to Masmoudi's proposals caused excitement in the trade-union sector which has been hard-pressed to satisfy the demands of the large number of young unemployed Tunisians, and much consternation to Prime Minister Hedi Nouria, who saw in Masmoudi's return a direct threat to his tenure as leader.

Buffeted by the sentiment for Masmoudi and the economic stagnation in the country, Nouria and aging Tunisian President Bourguiba had no choice but to declare a de facto unification between the two economies. On Oct. 25, the Grand Commission of Tunisian-Libyan cooperation put the finishing touches on an economic development program that will exchange Libyan capital for much needed Tunisian skilled manpower and foster the capital-intensive development of both countries.

A similar Libyan offensive in Sudan is currently underway. According to the Oct. 28 *Journal of Commerce*, "The Sudanese government is prepared to restore diplomatic relations with Libya, which were broken off in July last year after an abortive coup attempt against President Jaafar Numeiry." This announcement was preceded by the unexpected return of muslim religious leader El-Mahdi to the Sudanese political scene. Until two months ago, El-Mahdi, who was accused of plotting with Libya for Numeiry's overthrow, had been living in exile in Libya.

This Qaddafi-Mahdi initiative has two immediate repercussions for the volatile Horn of Africa area: first, Soviet influence will be reactivated. El-Mahdi, upon his return, said the Soviets "have a lot to teach us" and "should play an increasingly important role in the Middle East." Secondly, the regime of Anwar Sadat is further weakened by this rapprochement. Anwar Sadat has little maneuverability to conduct a policy of zero growth in the face of a Franco-Soviet alliance in the Middle East and Maghreb. The recent joint parliamentary sessions between Sudan and Egypt, strengthened by the newly-formed Sudan-Libya axis are an indication that a growing consensus for development and cooperation in the area render Sadat's tenure uncertain.

The conflict of the Western Sahara, which has brought Algeria and Morocco to the brink of war, remains the most serious impediment to Maghreb unity. Qaddafi comments, "If the parties concerned maintain their intransigence, it is inevitable that the present confrontations will lead to a war, spilling out into the region."

Qaddafi's call for a Maghreb confederation to settle the Saharan dispute without mention of the renegade Polisario Liberation Movement as party in the issue is similar to the development proposal attributed to Saudi Prince Abdullah — well known for his strong ties to the Moroccan King Hassan II. According to this settlement proposal, Algeria, Morocco, and Mauritania would engage in joint exploitation of the mineral wealth of the Spanish Sahara. In exchange for their cooperation, by abandoning support for the Polisario, Algerians would be given access rights to the Atlantic Ocean via the Spanish Sahara. Algeria has long desired to utilize this path to the sea to ship the iron ore found in the southwest corner of their country at Tindouf.

In the *Le Monde* interview, Qaddafi announced that he would be making a diplomatic push through Algeria, Mauritania, and Morocco as well as to Spain. As the former colonial power of the Spanish Sahara, Spain has agreed to mediate the dispute. At a meeting of the Spanish Parliament a few weeks ago, the Foreign Minister Ferreira said Spain would use its "good offices" to help in the solution of the conflict.

Euro-Maghreb Deals

The framework for Euro-Maghreb cooperation was outlined at the Belgrade Conference which devoted two days of work to the question of Mediterranean security. One by one, the Arab speakers reiterated the same theme: "The interdependence between Europe and the Mediterranean is such that an armed conflict in the South could plunge the European continent into a new war." According to the Moroccan and Tunisian representatives, the theme of "security and cooperation were as complementary" as the fact that Europe could not accommodate itself to the "insecurity and underdevelopment of its Mediterranean neighbors."

Economic relations between Europe and the Maghreb enjoy longstanding historical precedents which the enemies of growth in the City of London are trying desperately to destroy. Amidst the most profound crisis facing Algerian-European relations, two important energy-related deals have gone through, indicating economic development cannot be shelved through phony liberation movements, such as the Polisario. Last week, Algeria and Italy signed the "contract of the century," according to the *London Financial Times*.

After years of haggling between the three parties concerned, Algeria, Tunisia, and Italy, a contract was finally signed for supplying natural gas to Italy through an elaborate pipeline system, crossing Tunisia, the Mediterranean, Sicily, and finally ending on the Italian mainland. There are reports that the \$13 billion worth of gas might also be piped to other European countries, including France. In addition to this 25-year deal, Algeria, France and Spain have agreed to begin experimental work for another Mediterranean pipeline which will supply natural gas to Spain and finally to France.

The Polisario Ploy

An attempt to jettison French influence in the Maghreb

has been launched by certain forces in the Socialist International and the Algerian government under the aegis of Foreign Minister Abdelaziz Bouteflika.

The Polisario launched another attack inside Mauritania, taking hostage two French workers employed in the service of the Mauritanian government. French citizens in Mauritania are employed mainly in the iron mining industry. With a total of 13 French hostages, the Polisario is threatening to "try them before a military tribunal" as members of the French intelligence community. The French government has held an emergency session of the cabinet to deal with this crisis, and pressure within France is mounting for the government to take some action against this terrorist threat.

At the meeting of the Socialist International in Madrid Oct 18 an unholy alliance was struck between Algerian representatives and the Spanish Socialist Workers' Party of Felipe Gonzales. Gonzales, a personal friend of French Socialist Francois Mitterrand, intervened during the proceedings to demand that the Polisario be recognized as the sole representative of the Saharan people.

Exclusive Report From Mozambique:

A High Price On Development

A journalist who recently visited Mozambique filed this report on the problems and prospects of that key black African nation's development goals.

Two striking yet contradictory facts immediately impress the visitor to Mozambique.

First, this large, sparsely populated country of about 10 million people represents one of the most promising potentials for economic development in Africa, if not the entire so-called Third World. Its fertile river valleys, such as the Limpopo and the Zambeze, are perfectly suited for large-scale irrigated and mechanized agriculture. These same rivers could provide the electric

and from Maputo to the South African Transvaal. In fact, through treaty arrangements, the former Central African Federation (now Botswana, Zambia, Malawi, and Rhodesia) was prevented from seeking alternative ports.

Thus, by 1965, two-thirds of the total tonnage handled in Beira, Mozambique's largest port, and a fifth of the tonnage passing through Maputo were from Southern Rhodesia alone. So interconnected were these economies

MOZAMBIQUE

power for industrial processing of barely tapped reserves of iron, coal, and bauxite. Its port infrastructure is among the most developed on the continent. It is not difficult to see that this potential, once integrated with the vast mineral resources of Zimbabwe (Rhodesia) and Angola, would represent an important basis for the industrialization of all of southern Africa.

Yet, the Mozambican economy is among the most troubled in the world, due to the simple fact that not since the isolation of Cuba has a nation struggled for development under such aversive conditions.

Independence and Interdependence

Development would never have been easy for a sovereign Mozambique, even if it were not under siege. Undoing 500 years of colonial pillage at the hands of Portugal and its British banking patrons, Mozambicans emphasize, is an awesome task in itself. Colonialism's legacy is a population that is 90 percent illiterate. The very structure of the economy is designed to move the largest amount of loot out of the country as fast as possible; the only domestically oriented activity was geared to servicing the expatriate community that administered the colony. The population at large was without even the minimum in the way of roads, hospitals, and adequate food.

By the 20th century, Portugal was completely indebted to the City of London, and so Mozambique's primary role became that of servicing the important British colonies that surrounded the Portuguese colony on all sides. Large modern railroads were constructed from the port of Beira to Salisbury for transport of Rhodesian chrome,

Cuba And Mozambique Collaborate

Mozambique's potential as a mediator of economic development for all of southern Africa was emphasized during Mozambican President Samora Machel's recent visit to Cuba. In a speech Oct. 12 welcoming Machel, Cuban President Fidel Castro cited Mozambique's vast mineral, agricultural, and hydroelectric resources as the basis for such regional progress, referring to the African nation as a future breadbasket for the entire continent. Not only does Mozambique possess more than 50 million hectares of arable land, said Castro, but its huge rivers represent enough hydro-electric capability to supply internal needs as well as much of the energy requirements of neighboring countries. There are rivers in Mozambique, the Cuban president noted, that equal the flow of all of Cuba's rivers combined.

However, the new African nation must "start from zero," Castro said, due to the backwardness and lack of skills of the population resulting from Portuguese colonialism.

Machel, acknowledging Castro's remarks, stated that the colonial regime "organized misery, sowed illiteracy, and maintained the population in maximum backwardness" as a deliberate policy of subjugation.

To reverse this labor power problem of Mozambique, Cuba has received more than 1,000 Mozambican students this year in technical and general education programs, and pledges to double this figure next year. Four schools have been built especially for Mozambicans in Cuba, while the Cuban government has sent more than 400 technical advisors and personnel to Mozambique.

that much of the transportation links between northern and southern Mozambique passed through Rhodesia. In addition, prior to independence two years ago, over a quarter of a million Mozambican workers were employed in the mines and plantations in Rhodesia, South Africa, and Swaziland.

It is difficult to overemphasize this dependence on Rhodesia. A newcomer to Mozambique is surprised at how developed the ports of Maputo and Beira are, complete with huge rail yards, modern ore-loading equipment and the freight warehouses. Yet little of it has much to do with what Mozambique produces internally. As a result, Beira is now practically idle.

Sanctions and Sabotage

The government of Mozambique closed all borders with Rhodesia in March 1976 in observance of the United Nations resolution calling on all member states to cease trade with the illegal Smith regime. At first it may seem puzzling why a new nation would want to cut such a vital economic connection. But as one government official commented recently, not to impose sanctions against Rhodesia would merely perpetuate Mozambique's dependence at the expense of the future development of its own national economy. Our future, he explained, depends on a free Zimbabwe; our economies are integrated, and therefore we must develop together.

The costs to Mozambique of imposing sanctions are immense. The United Nations has estimated that direct losses in trade total around \$125 million annually. To put this figure in perspective, Mozambique's total foreign exchange earnings for 1977 are projected at approximately \$350 million. Specifically, the application of sanctions has meant not only the loss of all Rhodesian traffic, but all traffic from Zaire, Zambia, and Botswana; all rail traffic from northern Mozambique to the southern portion of the country and South Africa; and all rail traffic between southern Mozambique and Malawi. Indirect costs are almost impossible to calculate.

Although the United Nations has issued a resolution calling on all member states to provide aid to Mozambique in light of these circumstances, total assistance has so far totaled less than half of the more than \$200 million per year estimated by the UN as necessary to cover for the effects of imposing sanctions.

But perhaps even more debilitating to the Mozambican economy in the long run is the widespread, foreign-directed sabotage. It began even before Frelimo, the national liberation movement and now the country's ruling party, assumed power during the transition to independence in June 1975. The colonial government, along with all major Portuguese-British controlled firms, began to rapidly shut off all investment and maintenance following the fall of the Portuguese regime in April 1974. When it became obvious that it was impossible to avoid handing over power to Frelimo, every possible liquid asset was smuggled out of the country. In the months preceding and following June 1975, the smuggling included huge amounts of machinery, equipment, vehicles, and even furniture. Former colonists hijacked several of the country's precious few airplanes to Rhodesia. Hundreds of ships and fishing boats were pirated down the coast to South Africa. In the

outskirts of Maputo I saw factories and stores that had been burned to the ground. I was told that this had been a common occurrence throughout the country, and that colonists abandoning homes and buildings even poured cement down drains to destroy the plumbing.

The Frelimo government made strenuous efforts to urge businessmen, and especially skilled personnel, to stay. But it was widely recognized that the pressure behind the exodus was not coming from some "natural" impulse within Mozambique. Several Portuguese expatriates who decided to stay on and become Mozambican citizens told me how the Portuguese secret police, the notorious British-connected PIDE, planted wild stories in the press. At one point, a rumor swept the country that Frelimo was going to "nationalize" all children, a fabrication that had much to do with scaring foreign contract workers and technicians into fleeing the country.

It is the loss of skilled manpower that is the most crippling handicap for the new economy. The shortage of skilled labor is sorely evident everywhere. Entire factories lie idle for lack of technicians and managers. Even mechanics for busses, trucks, and tractors are in extremely short supply. Within the government, vast portions of the civil service were gutted; officials fled, tons of files were destroyed, machinery was stolen. The apparatus to run the government and the economy had to be developed from scratch, so much so that the government's economic planners still do not have a comprehensive survey of the country's natural resources. Records are so scarce that the true impact of the past 18 months' raids from Rhodesia, for example, has not been determined, since precise population and production figures for the regions affected are not available.

Total production losses resulting from sabotage have not been assessed. However, according to official documents, output of many items, particularly the key export commodities of sugar, cotton, cashew nuts, shrimp, and coal, is not expected to recover to pre-independence levels until 1979-1981.

Rhodesia's War on Mozambique

It is in this context that the Rhodesian regime has launched steadily increasing military raids on Mozambican territory. Under the pretext of retaliation for Mozambique's support of the Zimbabwe liberation movement, these attacks have escalated from quick ground sorties to large-scale operations involving heavy artillery, thousands of troops, and air strikes using attack helicopters and Mirage jets equipped with 500 kilogram bombs.

The Rhodesian raids have two objectives: to cripple the Mozambican economy as much as possible, and to terrorize the population in an effort to provoke demoralization and political dissension. On the latter count, the August 1976 attack on the Nyazonia refugee camp is exemplary. The camp, administered by the United Nations, not by the government, was completely overrun, leaving more than 700 civilians dead.

Similarly, during the several attacks on the town of Mapai, a major population center of the agriculturally important Limpopo valley, it was obvious that the objectives were not strictly military. Schools, hospitals,

and hundreds of homes were destroyed. From photographs I saw of the victims of Mapai, which is now completely deserted, it is clear that the Rhodesian mercenaries did not merely shoot the inhabitants; they spent considerable time and effort in mutilating bodies. These atrocities have been repeated in dozens of towns and villages in the provinces of Gaza, Manica, and Tete.

The Smith regime has chosen its targets with pinpoint precision at crucial points of Mozambique's infrastructure. The destruction of the bridge over the Pungue river in Manica province cut the last remaining major highway connection between Maputo and the north. Not only does this prevent the distribution of vital foodstuffs, much of which has to be imported, but it paralyzes the completion of the electrification projects at the Cabora Bassa dam in Tete. The heavy generators can only reach the dam via the highway not cut off at the Pungue river.

In the area of telecommunications, all links between Maputo and the northern provinces, including the key port of Beira, as well as connections to Zambia and Tanzania, were routed through the country's only troposcatter repeater station in the town of Chicualacuala on the Rhodesian border. The station was destroyed last year. Other attacks have laid waste to food warehouses, airfields, water reservoirs, rail lines, and truck depots.

Nor are the Rhodesian attacks limited to the border vicinity. Last January an air raid was launched against the town of Chocue, 300 kilometers inside the border and a mere 150 kilometers north of Maputo. One official

commented that it is impossible to delineate an area of the country that would not be subject to attack. Since Mozambique has no combat aircraft, Maputo itself is a potential target.

The government has officially estimated damage from Rhodesian attacks at a mere \$13 million. But these are only the direct costs of replacing destroyed buildings and equipment. Not calculated are the losses of crops that could not be marketed due to cut rail and road links. The Pungue bridge, for example, is valued at only about \$1 million, but its real value to the economy is almost incalculable, as shown by the loss of the electric potential of the Cabora Bassa. Nor have the losses in terms of displaced population been taken into account. It has been roughly estimated that a quarter of a million people have been directly affected by the attacks, but precisely how many families have been forced to abandon farms and other activities, no one knows. Complete assessments are impossible due to the isolation of various sections of the country. Communications between Maputo and villages in Tete, for example, now takes days.

Despite unrelenting attempts to thwart Mozambique's development the two- to five-year outlook appears promising. Aid from the socialist countries, and even from certain western nations channeled through the United Nations, is looked to to save the economy from disaster in the short run. Mozambicans are very optimistic about a favorable settlement of the Rhodesian question within a year or two, and assuming that they and the Angolans continue to provide leadership to Africa's black "front-line states," such a settlement is likely to lead to regional development accords based on the vast mineral wealth of the area. Under such conditions, the dormant infrastructure of Maputo and Beira will thrive as hubs of southern African trade.

At the same time, projects are already underway for the exploitation of new resources. A West German firm has done feasibility studies of new coal deposits in Niassa. Millions of tons of high-grade coal may eventually be exported from Nacala, presently a small fishing town but also the best natural deep-water port on the African east coast. Cost estimates have already been made on turning Nacala into a major shipping terminal. The coal could eventually go to steel smelters using iron ore from the central and southern regions, as well as from Swaziland and South Africa, with energy provided by the Cabora Bassa dam on the Zambeze river. The government also plans to incorporate 10,000 hectares of arable land per year into the modern agriculture sector through projects such as the planned Limpopo dam, which will supply irrigation for at least two high-yield crops annually in the valley. In the crucial area of scientific and technical training, the expanding student and worker exchange programs with Cuba and other allies will greatly accelerate Mozambique's already intensive training drives.

It was therefore not surprising to find no Maoist writings in Maputo's bookstores. One government official told me that when a Chinese "technical" mission was consulted for advice on how to recover an abandoned factory producing light agricultural machinery two years ago, the Chinese unhesitatingly recommended the plant be torn down. Distribute crude hand tools among

LaRouche: South Africa- Mozambique Tie, Key To Peace

Mozambique's enormous economic potential represents the unique basis for a durable peace effort in southern Africa. U.S. Labor Party chairman Lyndon H. LaRouche, Jr. outlined such a peace proposal in a statement released this week:

"The Republic of South Africa is properly perceived as the mediator of high-technology-oriented economic development throughout the region. This requires, of course, that the nation's internal and external policies be brought into agreement with equitable economic development treaties with its predominantly black neighbors, and the issue of Namibia resolved in that context. ...

"A solution to the problem means that the Republic of South Africa must negotiate through (most probably) Mozambique, and must establish both detente and economic cooperation with Mozambique and Angola. In that case, a treaty-negotiating commission initiated with participation of the Republic of South Africa, Mozambique, and Angola will lead toward rapid and substantial improvements in all matters throughout southern Africa — provided that continental Europe and the United States support this effort."

the rural population for "labor intensive" ("full employment") cultivation, the advisors said. The mission was politely told to leave.

The surest guarantee in Mozambique's fight for development is the Frelimo leadership's commitment to scientific and technological progress. The "Economic and Social Directives," Frelimo's development guidelines presented at the party's Third Congress last February, emphasize that the primary task for ensuring expanded production is "the constant raising and

upgrading of the scientific and technical knowledge of the working classes" (emphasis in the original). The document calls on Frelimo cadre and the government to "accelerate the process of industrialization and promote the establishment of heavy industry ... (and) the progressive mechanization of agriculture.... The global strategy of our economic and social development ... is to take agriculture as the base and industry as the decisive and propelling factor."

— C. Allen

Black African Diplomat:

South African Arrests, A Vorster Bid To Block Regional War

South African police carried out a nationwide sweep on the morning of Oct. 19, arresting more than 50 leaders of nearly every organization considered part of the country's "black consciousness" movement following a declaration by the Pretoria government outlawing these groups. (For a viable policy for South Africa see "NATO in Caesar's Foolish Footsteps" by Lyndon H. LaRouche, Jr. International Section.) What follows are an African frontline state diplomat's comments on the South African clampdown:

Q: What do you see as the motivation behind the recent South African clampdown?

A: I think Vorster's action resulted from two closely related things: the upcoming elections in South Africa and the danger of the Rhodesia crisis erupting into regional war.

Q: What is the connection between the two?

A: Vorster does not want to get maneuvered into backing up Rhodesia's Prime Minister Smith in a southern Africa conflagration. Vorster has called the elections to get a

big mandate to aid in pursuing this goal. The British and allied forces intended to heat up racial sentiments to throw Vorster's right-wing base into a frenzy, and make it impossible for him to stay out of the crisis precipitated by the Rhodesia issue.

But by focussing the election campaign on South Africa's determination not to be dictated to by Carter or others, Vorster is clearing out a certain rancor that has existed in his base due to government cooperation with the U.S. in the past. By strengthening his position internally on the basis of this particular issue, Vorster hopes to be able to continue holding back, and not be maneuvered into going to the aid of Smith militarily.

It looks like the recent clampdown was a move by Vorster to preempt an operation designed to heat up racial antagonism in his base, thus jeopardizing his overall strategy. I don't see the clampdown as a unilateral action by the South African government to go after blacks, but an action taken to procure a position that will enable Vorster to maintain his policy of war avoidance.

European Tours, Deals Show 'Mexico Is Going Nuclear'

Jorge Díaz Serrano, director of Mexico's national oil company Petroleos Mexicanos, will soon visit France as part of a worldwide tour to negotiate financing and technology for an ambitious Mexican development plan. He will be augmenting the "unprecedented treaties" announced by Mexican Foreign Minister Santiago Roel during a two-day visit to Paris which ended Oct. 21.

The Franco-Mexico deals include the exchange of Mexican oil for French capital goods and advanced technology, especially nuclear technology. They also include the joint development of Mexico's vast and untapped uranium reserves.

Serrano's tour coheres with reports from highly placed Mexican sources to the effect that "Mexico is going nuclear." The Mexican government, these sources say, intends to use its enormous oil reserves to finance the most rapid possible development of its national industrial and nuclear potential.

The Latin American leg of Serrano's tour includes visits to Venezuela and Brazil this month, where he will discuss Mexican oil exports to Brazil and the exchange of Mexican petrochemical technology for Venezuelan drilling know-how. Brazil and Venezuela have been drawing together in the past months on the basis of a common commitment to energy development.

Mexico's initiatives in Latin America dovetail with the Franco-West German axis which has developed in Europe around the same focus: their joint efforts to extend nuclear technology for development on a worldwide scale.

Brazil, Latin America's most industrialized country, is already well on its way to "going nuclear," through the construction of a series of advanced nuclear reactors of West German design, despite heavy U.S. opposition. Just a month ago, Brazil received the support of Venezuela's President, Carlos Andres Pérez, for its nuclear program. This endorsement has been seen by political observers as a reflection of Venezuela's own plans to develop nuclear energy for industrialization.

The Brazil-Venezuela formation around advanced energy issues is underscored by Carlos Andres Pérez's upcoming visit to Brazil. The Pérez visit, the first by a Venezuelan head of state to Brazil in more than a century, will end only two days before President Carter's scheduled arrival in Venezuela and Brazil on Nov. 22 and 23 respectively.

In Brazil, Díaz Serrano will most likely continue

negotiations for substantial energy deals with Brazil. Mexico is set to provide up to 12 percent of Brazil's oil needs, and according to Díaz Serrano this country may become Mexico's largest oil buyer. Discussions should also touch a joint Mexico-Brazil project, announced last week by Mexico's ambassador to Brazil Leon Garcia, for the construction of a refinery in the Amazon River area. The refinery, with a capacity of up to 100,000 barrels per day, will be partially financed and fully supplied with oil by Mexico.

The Spanish Bridge

Mexico's moves toward Europe began with the visit to Mexico last October by Italian Foreign Minister Forlani, and continued with President Lopez Portillo's historic state visit to Spain Oct. 8-16. A broad range of economic agreements with the government of Spanish Prime Minister Adolfo Suarez resulted from the Lopez Portillo visit. These deals are seen by the highest political circles in Mexico as a foot in the door to massive Latin American trade and cooperation with Europe and the Middle East via Spain. The visit ends a 41-year rift between Mexico and Spain, begun in 1936 when Mexico broke off relations with Spain as a result of the Franco fascist takeover.

A major factor in Mexico's European turn was the activity of the City of London's allies within the U.S. government to force Mexico into the London markets for financing. While Energy Secretary James Schlesinger attempts to create U.S.-Mexican cooperation in a major energy project (see *Energy*); U.S. Comptroller of the Currency John Heimann — who together with Treasury Secretary Blumenthal gained notoriety during "Lancgate" — threatened Mexico with a virtual cutoff of credits by suddenly announcing last week that he intends to enforce strict "legal lending limits" by U.S. private banks to Third World Countries. When asked whether Heimann's de facto cutoff of credit to Mexico might force that country to turn to the City of London to meet its foreign borrowing needs, a Treasury official answered, "I cannot dispute it."

Heimann's proposals follow U.S. Senate Subcommittee hearings designed to scare U.S. banks away from issuing any credits for energy development in Third World countries. In the case of Mexico, such cuts would immediately affect the crucial state sector's food subsidies and cheap credits for agriculture.

1976 Virginia Vote Fraud Proven In U.S. Labor Party Study

Incontrovertible evidence of vote fraud during the 1976 presidential elections has been demonstrated by a recently completed analysis of the official returns from the state of Virginia. A conservative projection from votes in areas of lowest U.S. Labor Party influence in the state show that the actual vote for U.S. Labor Party presidential candidate Lyndon LaRouche must have minimally exceeded 50,000 votes, or 3 percent of the total presidential vote in the state.

The analysis shows, first, that LaRouche's highest attributed vote in the state was in the areas of lowest USLP presence and organization, and second, that a comparison of official results from Shoup and AVM voting machines yields patterns that could not possibly have occurred through any way other than fraud and machine tampering.

When the official vote totals for LaRouche and Socialist Workers Party candidates Peter Camejo were compared, LaRouche tallied about twice as many votes as Camejo in areas where Shoup and R.F. Shoup machines

were used. In AVM jurisdictions, Camejo's votes were, by contrast, almost four times those of LaRouche.

Vote totals for Camejo — who had no visible campaign in Virginia — officially were placed over 1 percent in 53 counties and cities. AVM machines were used in 52 of these 53 jurisdictions, although AVMs are only used in 60 percent of the state. (Perhaps some ingenious election official will argue that voters in these 52 counties — having purchased machines from the Institute for Policy Studies-connected AVM Corporation — then logically expressed their preference for the Institute's candidate, Camejo.)

In a Richmond press conference Oct. 27, Allen Ogden, the 1977 USLP candidate for governor of Virginia released a complete statistical analysis, demanded an official investigation, and put state election officials on notice against permitting a repetition of the 1976 pattern in the upcoming Nov. 8 Virginia elections.

One part of the package released by Ogden was the following study by Dr. Steven Bardwell, a statistical expert.

Statistical Analysis of Virginia Presidential Vote

The returns from the 1976 Presidential vote in the State of Virginia show a striking variation dependent on the kind of voting machine which recorded the votes. In particular, the percentage which the candidate of the U.S. Labor Party, Lyndon LaRouche, and the percentage which the Socialist Workers Party candidate, Peter Camejo, received, differ by a factor of four on the two major types of machines used in the Virginia elections. One pattern is especially consistent: On one type of machine (Automatic Voting Machine) Camejo consistently received many times the vote received by LaRouche, while on the other type of machine (Shoup), the ratio is reversed, with LaRouche receiving more than Camejo.

To test this initial observation rigorously, I conducted a standard statistical analysis of these election returns, to measure the probability that the votes for LaRouche versus Camejo could have been obtained on an unbiased voting machine. Stated more precisely, the hypothesis to be tested statistically was:

Could the difference in the votes received by

LaRouche and Camejo, on each kind of voting machine, be due to chance alone?

In testing a hypothesis such as this, it is essential to account for all the effects which might affect the vote for the two candidates on each kind of machine. The statistical analysis should give us assurance that the observed difference in the LaRouche and Camejo votes is due *only* to the kind of voting machine. Is it possible, for example, that the reason LaRouche consistently received fewer votes than Camejo on AVM machines was because the counties that bought AVM machines were politically inclined towards Camejo rather than LaRouche?

To take into account the main factors which could have affected the results of the LaRouche versus Camejo vote, two factors were analyzed:

1) Brand of voting machine: Since each jurisdiction purchases its own voting machines, voting in each jurisdiction is done on only one kind of machine. Thus, the election returns as tabulated by the Virginia Board of Elections directly show the data of vote by kind of voting machine.

2) Political preference: This qualitative factor had to be measured in a way which would not itself be tainted by any irregularities which might have occurred in the Presidential election under consideration. Therefore, I chose the state-wide election which was closest in time to the 1976 Presidential election. The 1973 gubernatorial race was used to provide a measure of the political preference of the jurisdictions. The jurisdictions were divided into five groups depending on the percentage vote received by Mills Godwin, Jr., the Republican candidate for governor in the 1973 election. These five categories give a breakdown of the jurisdictions in Virginia by political preference which can then be tested along with the kind of voting machine. These categories are called, "1," "2," "3," "4," and "5" in the accompanying tables.

Table 1 shows the critical data in the election results analysis. It contains for each category of political preference and type of voting machine, the weighted average of the ratio of the LaRouche vote to the combined LaRouche and Camejo vote. The table shows that on Shoup machines, LaRouche consistently got 70 percent of the combined LaRouche-Camejo vote, without regard to the political preference of the jurisdiction, while on AVM machines, the ratio was reversed, with

Table 1. Weighted average of votes:

LaRouche
LaRouche plus Camejo

Type Voting Machine	"Political Preference"				
	1	2	3	4	5
Shoup	.7297	.6904	.6412	.7202	.7233
AVM	.1664	.2117	.2473	.2722	.2535

Table 2. Ratio tests for data in Table 1.

Source	Degrees of Freedom	Mean Square	"F"-Statistic
Machines	1	4.77448	19.825681
Pol. Pref.-1973	4	.011845	0.049185501
Interaction	4	.01048	0.043517438E-02
Error	104	.240823	

Camejo consistently receiving over 75 percent of this vote.

A standard statistical test was performed to determine if the observed difference in Table 1 could have occurred by chance. A test called "analysis of variance" was used to remove the effects of political preference (which even so, seem to be small) and to isolate the effect of the type of voting machine on the result. This method of statistical analysis can test whether the variation in the results *due only to the type of voting machine used* is, in fact, statistically significant.

This statistical test* showed that the differences in the LaRouche vote on the two brands of voting machine could have been due to chance *less than one time in a thousand*. This means that the observed difference in the votes is statistically very significant and that there is considerable assurance that the election machines had a substantial effect on the outcome of these votes. Stated differently, there is less than one chance in a thousand that the observed effect of voting machine type on the election returns could have been due to chance alone.

*The statistical test used was the F-Test applied to the variance ratios calculated for a two-way analysis with unequal numbers of observations in each cell. The variance ratios are reproduced in Table 2.

Appendix

This appendix contains the data used to analyze the election returns. All figures were taken from the official election results published by the Virginia State Board of Elections.

Table A-1. Number of jurisdictions in each category of analysis

Type Voting Machine	"Political Preference"				
	1	2	3	4	5
Shoup	1	7	22	7	5
AVM	1	11	34	21	5

Table A-2. Total number of votes in each category of analysis

Type Voting Machine	"Political Preference"				
	1	2	3	4	5
Shoup	36246	37614	291406	42458	60012
AVM	70402	184154	394651	159524	125610

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EXECUTIVE INTELLIGENCE REVIEW SPECIAL REPORT
DAILY ENERGY INTELLIGENCE BULLETIN AUGUST 18, 1977
'EX' WATERGATE PROSECUTOR CHARGES 1.5 BILLION DOLLAR COST
OVERRUN IN ALASKA PIPELINE

AUG 18 - IN A HIGHLY UNUSUAL PROCEDURE, THE STATE-RUN ALASKA PIPELINE COMMISSION, ITSELF SPENDING MORE THAN 1 MILLION DOLLARS IN ITS INVESTIGATION, HAS CHARGED THAT THE ALYESKA PIPELINE SERVICE CORPORATION 'WASTED' SOME 1.5 BILLION DOLLARS IN CONSTRUCTION OF THE MUCH PLAGUED ALASKA OIL PIPELINE. THE ALYESKA CORP. HAS CHARGED THAT THE STATE REPORT IS BIASED AND THAT THE INVESTIGATORS 'NEVER INTENDED OBJECTIVITY.' THE 678-PAGE REPORT WAS PREPARED UNDER THE DIRECTION OF TERRY LENZNER WHO WAS PREVIOUSLY INVOLVED IN THE POLITICAL FAC-TIONAL WAR AGAINST NIXON WHEN LENZNER WAS DEPUTY COUNSEL TO THE SENATE WATERGATE COMMITTEE. INFORMED SOURCES BEHIND THE INDUSTRY CONFIRM THAT THERE HAS BEEN AN INTENSE AND FINANCIAL SCENES ACTING AT TIMES THROUGH ITS EXXON INTERESTS TO SABOTAGE THE DEVELOPMENT OF THE LARGELY BRITISH PETROLEUM BACKED EFFORT TO EXPLOIT THE VAST ALASKA OIL RESERVES. THE DAMAGE CAUSED BY AN EXPLOSION AND FIRE EARLIER THIS SUMMER HAS ALREADY CAUSED SUBSTANTIAL DELAY IN BP ALASKA OIL REVENUES, WHICH WAS FURTHER AGGRAVATED BY A US INTERSTATE COMMERCE COMMISSION DE-CISION FORCING DOWNWARD REDUCTION IN RATES CHARGEABLE BY THE PIPELINE CONSORTIUM TO ITS CUSTOMERS.

BRITISH NUCLEAR REPROCESSING INQUIRY GETS BOOST

AUG 18 - THE ONGOING BRITISH GOVERNMENT-ORDERED PUBLIC INQUIRY INTO THE QUESTION OF WHETHER THE EXISTING NUCLEAR FUEL RE-PROCESSING CENTER OF BRITISH NUCLEAR FUELS LTD. AT SIND-SCALE GOT A MAJOR BOOST WITH THE TESTIMONY THIS WEEK FROM THE NUCLEAR INSTALLATIONS INSPECTORATE THAT 'THERE AP-TO BE NO SIGNIFICANT SAFETY PROBLEMS THAT CANNOT BE OVER-COME. IN OTHER TESTIMONY, DR. STANLEY BOWIE OF ABERDEEN UNIVERSITY DISPELLED THE MYTH, WIDELY CIRCULATED BY VARIOUS ENVIRONMENTALIST GROUPS, THAT THE PLUTONIUM BYPRODUCT SUCH REPROCESSING WAS ONE OF THE MOST DEADLY SUBSTANCE BOWIE POINTED OUT THAT ALMOST EQUALLY DEADLY FALTERNI THE CAFFEINE PEOPLE DRINK EVERY DAY IN THEIR COFFE-BRITISH AFFILIATE OF THE SO-CALLED BADLY FALTERI HEADED BY AMORY LEVINS IS BELIEVED TO BE PART OF ONE ATTEMPTS TO SO FAR WHIP UP PUBLIC HYSTERIA AGAI-LE EXPANSION. THE EXPANSION IS PART OF ONE THE JAPANESE ELECTRIC UTILITIES FOR A MA-SING CONTRACT.

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