

# EXECUTIVE INTELLIGENCE REVIEW

The Riemannian  
economic model

March 20-26, 1979

## NATO: The debate Washington is trying to suppress



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# EXECUTIVE INTELLIGENCE REVIEW



## **NATO: the debate Washington is trying to suppress**

You haven't seen it in the U.S. media, but West Germany, the bulwark of the NATO alliance after the United States, is demanding fundamental changes in the Atlantic Alliance's military and political strategic orientation. German differences with the dominant NATO policy orientation of London and Washington were aired in a tempestuous Bundestag policy debate last week; working with our Wiesbaden bureau and members of our New York staff, military affairs editor Paul Goldstein has compiled a full report, including excerpts from the debate itself, the background to the policy crisis as the Germans developed their views over the past two months, and Goldstein's own analysis of the fundamental choices the alliance will have to make. A report of major significance, this week's **MILITARY STRATEGY** section will explain why the Germans have been canceling NATO maneuvers, why they are refusing to allow modernized U.S. missiles on German soil, and why they are pressing ahead with the Vienna MBFR talks despite foot-dragging in London, Washington, and Brussels.

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### **The Riemannian economic model**

At last, we preview the new economic forecasting model that will make the GNP and other economic indicators obsolete. Based on energy throughput as its basic parameter, this new computer model developed by Drs. Uwe Parpart and Steven Bardwell of the Fusion Energy Foundation is the first forecasting tool to take account of technological advances in its calculations. Part I of a series, this week's installment of our SPECIAL REPORT features Parpart's application of the principles underlying the new model to a critique of U.S. GNP figures; forthcoming installments will describe the computer model in more detail, and will demonstrate its application using actual economic data. page 54

### **EMS summit presses energy, technology transfer**

The European Monetary System went formally into operation at the EEC heads of state summit last week, but, as everyone has admitted, the currency stabilization features of the EMS have been de facto in operation for weeks. So the heads of state pressed ahead with an ambitious program of technology transfers with Third World nations, with particular emphasis on arrangements with the oil producing nations. The story leads off our ECONOMICS section, which also includes stories on tight credit in Europe and the U.S., the demise of the "Common Fund" commodities plan, U.S. banks' fight — at last — against British takeover bids, and an exclusive story on an unusual tight market in gold. page 17

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## Who is Otto von Habsburg?

Scion of the family that rules Austria for centuries and pretender to the Austrian throne, Otto von Habsburg recently gained West German citizenship in order to be eligible for a seat in the European Parliament — a vehicle for his views in support of a Pan-European Union. It hasn't worked out that way; the West German Christian Democratic Union has rejected Habsburg as a candidate on its list, scotching any serious hopes he had to gain election. This week's COUNTER-INTELLIGENCE report begins serialization of an exposé of Habsburg and his political networks, originally prepared by the European Labor Party and circulated in Germany, which helped knock Habsburg out of the running. It explains why very few in Germany today want to be associated with the leader of the European nobility. **page 48**

## Perez's legacy in Venezuela

The media is speculating that the new President of Venezuela, Luis Herrera Campíns, will sharply cut back the development projects initiated by his predecessor Carlos Andres Perez. But a report by Latin America editor Dennis Small, who recently returned from a tour of Venezuela, points out several factors indicating that this may be far from the case. A two-part report in ECONOMIC SURVEY by Small argues that Venezuela's development program is too deeply embedded in the nation to turn back. His report features the first part of an exclusive interview with the planner who was responsible for drafting that program, Dr. Gumersindo Rodriguez. **page 40**



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# A world twice as dangerous

Events of mid-March, 1979 have called the question that we pose in our cover story this week: will London and its Washington puppets propel NATO into a thermonuclear war with the Soviet Union that the West will lose—or will NATO itself give way to the new kind of alliance crystallizing around the European Monetary System?

Certainly, the constellation of measures adopted March 12 and 13 by the Council of Europe, the heads of government of the European Community, has set the framework for an enduring world peace premised on prosperity. The Council formally inaugurated the European Monetary System, thus bringing to an end three months of open sabotage by Great Britain.

And, out of the Council's Paris meeting, chaired by French President Valery Giscard d'Estaing, came a mandate to the French President to carry his diplomacy of exchanging high-technology transfer for raw materials—so spectacularly successful two weeks ago in Mexico—to the entire developing sector, especially to the strife-torn Middle East and Africa.

It is entirely lawful that the strategic triumph of the EMS leadership this week in Paris should have coincided with the hideous sham of Jimmy Carter's "Peace in Our Time" anti-Soviet military alliance with Israel and Egypt. The efforts of the British oligarchy to prevent an EMS-centered new world monetary system from destroying the City of London's global financial and political empire have hardly been a secret over recent months. The key to Great Britain's strategy is the "geopolitical" concept of "conquering the Eurasian heartland"—i.e., the Soviet Union—by manipulating Washington into a series of confrontations with the USSR.

Carter's British-dictated "peace" in the Middle East has made the world twice as dangerous as it was even a month ago, when the Chinese invasion of Vietnam under the aura of a tacit American nuclear alliance with Peking set the strategic situation careening toward thermonuclear superpower confrontation. The Teng regime in China, despite the press camouflage under announcements of "withdrawal," has renewed its drive to annex Indochina by combining a genocidal scorched-earth policy in Vietnam with the full-scale invasion of neighboring Laos.

As our cover report this week details, the West Germans—strategic linchpin of NATO—made it clear, in rejecting the "China card," that if Washington and London pursued the transformation of the Atlantic Pact into an aggressive alliance against the Soviets, they could count Europe out. It is also clear that Western Europe's approach to the Middle East is more than incompatible with the reckless folly of Camp David. Giscard's mandate from the Council of Europe centered on bringing together the oil producing and oil consuming nations—a proposal fielded by Mexico and being urged by Saudi Arabia, the country most immediately threatened by the Egypt-Israel war pact—in a conference to mutually avert the destabilizing shocks of oil price rises.

The EMS leaders and their allies, including the Brezhnev grouping in the Soviet leadership and the Lopez Portillo government of Mexico, rightly see this kind of institutionalized "North-South" framework for solving the immediate and future world energy needs as the key to peace. This week, Mexico took full-fledged leadership on behalf of the developing sector for a new world economic order premised on expanding rates of energy production and consumption both in the United Nations and International Monetary Fund contexts.

The Council of Europe's mandate to Giscard confirms that the overreaching political purpose of the new EMS is exactly what this publication has maintained since the system was first proposed last July in Bremen—not a mere "currency stabilization" scheme, but the seed-crystal of a new global economic order whose impetus was the Europeans' understanding that only cooperation for developing the Third World could stem the tide toward war between the Warsaw Pact and NATO.

Now, the sealing of Camp David has placed an urgent political necessity at the top of the agenda for the EMS leadership. Nothing short of a vociferous European denunciation of that pact for what it is — the placing of a U.S. and NATO nuclear umbrella over Israel for that British puppet state's planned aggressions against the Franco-German peace efforts — can make fulfillment of the promise of the EMS possible.

—Nora Hamerman

## **Nuclear umbrella over Israel**

Reports published this week in the Washington Post, as well as information from sources in the Central Intelligence Agency and information cited by Washington journalist Daniel Schorr at a White House press conference March 15, confirm earlier leaks that the crucial content of what Jimmy Carter consolidated during his visit to the Middle East was a military pact between the United States and Israel. This puts Israel under a U.S. nuclear umbrella for any military adventures it chooses to undertake in the Middle East—including against Soviet-allied Iraq and Syria, Israel's neighbors.

Reports from the region portend that the U.S. commitment to come to Israel's rescue as soon as any hostilities break out may soon be called upon. Riots have been triggered in the volatile West Bank, which under the Camp David Pact the United States has agreed to police, and threaten to spill over into Lebanon.

## **Giscard: EMS to alleviate crises**

French President Giscard d'Estaing announced on the first historic day of the European Monetary System's official existence that "the planning and implementation of the EMS took place against a background of international crisis. One of the aims of the EMS," Giscard added, "is to alleviate these crises. The EMS has been designed as a contribution to peace, cooperation, and security."

The EMS member-states also put out a condemnation of Rhodesia's murderous raids into Mozambique. European Community foreign ministers issued an important statement expressing "concern over what the real intentions of China in Indochina might be."

## **EMS, OPEC to break with Seven Sisters Cartel**

The Council of Europe summit that concluded March 13 in Paris called for "the appropriate ministers and their staff to get precise and clear information on what illegal activities are being performed by oil companies in Rotterdam and elsewhere." Informed circles are reading this as an initiative to expose the speculators and profiteers that have launched economic warfare against the European Monetary System. Rotterdam is Europe's biggest spot market for crude oil and has been the speculative playground for trading companies directly fronting for Royal Dutch Shell and British Petroleum.

The European investigation will dovetail with Mexico's proposal for a world energy development conference that, in the words of a Mexican columnist, "challenges the oil control of the Seven Sisters." The semi-official daily *El Nacional* took special note that French President Giscard's statement giving European Community backing to the proposal "reveals the degree to which the policy suggested by Mexico is appropriate to the circumstances now obtaining throughout the planet."

## **Mexico fights inflation with production**

"There is no other way to fight inflation than to increase production and productivity," stated Mexico's Minister of Industry and Natural Resources, Jose Andres Oteyza, in his March 13 presentation of the outlines of Mexico's ten-year industrial development program. Oteyza announced that the plan aims at an overall economic growth rate of 12 percent, and a 20 percent rate for the capital goods sector.

The plan targets 1,700 industrial projects for public and private investment, with an emphasis on consumer goods production and on

those "strategic state sector" areas such as steel and petroleum. The Deputy Director of Mexico's state oil company, Petroleos Mexicanos (Pemex), simultaneously announced plans to build 50 petrochemical plants over the next four years, ten of which will be among the largest complexes in the world.

## **The war is not over**

Reports from a variety of sources make it clear that the war in Indochina between the invading Chinese and the Vietnamese is far from over. While Peking issues statements that the withdrawal is "complete," the Vietnamese have charged that Chinese forces remain in their territory and have moved border markers to carry out a Chinese occupation of territory now claimed by China. Chinese troops, the Vietnamese further assert, have carried out a "scorched earth" policy of destroying everything in sight as they move out of areas. Vietnamese diplomatic sources at the United Nations described the situation as one where they had to wait to let the Chinese come in and develop their main point of attack, so as not to have to defend the entire 1000-kilometer long border. Now they say the Vietnamese armed forces, whose strength is relatively untouched, can pick and choose their line of counterattack. Teng Hsiao-ping, as his Western friends may have been warning him, is indeed stuck in the "quagmire" in Vietnam and may only be extracted by the force of Vietnamese military might — perhaps at the cost of his political career.

## **China invades Laos**

The Laotian government, an ally of Vietnam, has accused the Chinese of invading its territory sending two battalions through the Lang Namtha province. The charge follows earlier charges that China



was massing troops along the Laotian-China border within striking distance of strategic points in Vietnam and Laos.

Charges that the Chinese are "sending spy teams into Phon Saly and Luang provinces and that during the past two weeks many companies of Chinese troops have crossed the border" were leveled at the Chinese by a Laotian government spokesman. The government has also called on the Chinese to withdraw over 1000 Chinese construction workers building roads through northern Laos because they had been "engaging in espionage activities." The government called for China to "immediately withdraw all armed forces that have infiltrated into Laos."

### **Brezhnev calls for 'collective resistance' to China**

While China's touted withdrawal from Vietnam has given most of the U.S. press the excuse to put Indochina on the back pages, the threat of that conflict spreading into global nuclear war is still on the front burner. Here are a few of the Soviet warnings issued during the past week:

*March 11* — Soviet President Brezhnev, in a speech to visiting Polish President Gierek, called for "collective resistance" against China. "Otherwise, mankind could not avoid a catastrophe," he continued. "We will do everything necessary" to help Vietnam and "to avert new provocations threatening world peace," the Soviet President concluded.

*March 11* — Soviet Prime Minister Kosygin on television in India: "Peking has announced the withdrawal from Vietnam. But they are consolidating their positions on Vietnamese soil and are continuing their occupation. The efforts of all people and countries must be directed to putting an end to China's aggression."

*March 13* — Soviet Central Committee member N. Inozemtsev has explicitly stated that the USSR will intervene militarily in Vietnam if China continues its invasion.

### **Bank takeover probe 'worries' Britain**

The congressional probe of attempts by the Hongkong and Shanghai and other British banks to snap up \$23 billion in U.S. banking assets (see ECONOMICS) has begun to draw British howls of pain. Notably, the London *Guardian* hit an accurate note March 14 when it complained that the holdup of a decision on the takeovers by the New York State and federal authorities is "cramping the maneuvering ability of the British banks" internationally.

"British Takeovers Worry American Bank Officials," ran the headline in the *Daily Telegraph* the same day, repeating warnings in the *New York Times* of March 12 that the U.S. banking community is now "organizing a defense effort" against the takeovers.

In Washington March 12, a private Capitol Hill meeting of federal officials heard New York State Banking Superintendent Muriel Siebert present her objections to the British takeovers on the grounds that through them, the British government will control U.S. monetary policy. At the meeting were top Fed and Treasury officials and House Banking Committee chairman Henry Reuss (D-Wisc), who tried to urge the Federal Reserve to act on the current applications before the Siebert-instigated congressional review could proceed. Mrs. Siebert objected violently; the Fed refused to comment.

### **Peanutgate: familiar cast**

The spectrum of righteous judges who have suddenly taken an interest in irregularities of the Carter family peanut business has an eerie

familiarity to those who watched the "Watergate" destruction of Richard Nixon five years ago.

The *Washington Post* — remember Woodward and Bernstein? — got in on the act this week by finding a former Carter warehouseman to allege that the Carters had less-than-legal financial dealings with the bank of former federal budget director Bert Lance. In Congress, none other than Sen. Howard Baker (R-Tenn) and Rep. Peter Rodino (D-NJ) of Watergate fame are now leading the clamor for a "special prosecutor."

But the clincher is the resurfacing of Alexander Haig, the lame-duck NATO commander. Haig used the 1974 Watergate debacle to temporarily seize control of the White House together with Henry A. Kissinger, in flagrant defiance of the Constitution. Now Nixon's old speechwriter columnist William Safire, who has pushed "Cartergate" since Jimmy took office, is backing Haig's high-profile candidacy for the Republican nomination to presidential candidacy, and has joined calls for a special prosecutor.

### **ERRATA**

In the Asia section of the March 13 issue of the *Executive Intelligence Review*, headlines were reversed for two features. The article beginning on page 41 should have been headlined "The war in Indochina: withdrawal or *Sitzkrieg*?" The article on page 43 should have been titled, "China's economy: More signs of trouble."

The chart depicting French aid to the developing sector from 1974-1976 on p. 16 was improperly aligned, and the identification for the "Total" category was omitted. For example, in 1974, the amount of aid from the public sector was 916.3 million francs, aid from the private sector was 7,497.6 and the total was 16,188.7.

The key was omitted from the World Trade Review on page 56, the correct key appears in this issue.

# NATO:

## The debate Washington is trying

Last week what may be the most crucial debates determining the future of postwar Germany and the advanced sector Western nations were held in the Federal Republic's Bundestag in the course of a debate on West Germany's defense policy and role in NATO.

The strategic implications of the debates for U.S. policy received no significant coverage in the U.S. news media, even though they placed a spotlight on two diametrically opposed strategies for NATO, the North Atlantic Treaty Organization founded in the late 1940s on the initiation of Great Britain to combat what the British contended was the military threat to Europe posed by the Soviet Union.

London, supported by the Carter Administration in Washington, wants to expand NATO drastically. Current proposals center on (1) expansion of NATO forces in Europe. This would include arms standardization proposals and increased defense spending by member nations, and featuring stationing of modernized nuclear-armed missiles in West Germany; and (2) extension of NATO into the Middle East. This proposal includes possible incorporation of Egypt, Israel, Saudi Arabia and Gulf emirates into NATO, stationing of U.S. and NATO forces in the Middle East, and establishment of a NATO "Fifth and one-half Fleet" in the Persian Gulf and Indian Ocean, and based at Diego Garcia.

For London, what is at stake is some 200 years of global financial hegemony which is threatened by establishment of the European Monetary System. As the British provoked war in 1914 and 1939 to protect their economic preeminence, so today they regard a confrontation between the United States and the Soviet Union as necessary to force a realignment of the world political geometry away from EMS-centered detente.

British strategists have stated in published documents their goal is to beef up NATO to be capable of successfully initiating a confrontation with the Warsaw Pact by no later than the mid-1980's. They have

elaborated a strategy, termed the "arc of crisis," for progressive weakening of the Soviet global strategic posture to make such a confrontation possible. Both METO and the Chinese invasion of Vietnam, they have made clear, are elements of this strategy, as is the destabilization of Iran.

At the same time, the extension of NATO is designed to make possible the imposition of wartime austerity regimes both in western Europe and in the Third World.

In the West German view, this policy-thrust is a prescription for a strategic disaster, which is almost certain to lead in the short term to World War III with the Soviet Union if pursued to its logical conclusion. Contrasting the British view of NATO as an essentially offensive alliance whose mission is to steadily encroach upon the Soviet sphere of influence, the West Germans stress that national security is mutual — both NATO and Warsaw Pact nations have the right to enjoy it. Particularly alarming to the Germans has been the persistent Anglo-American effort, officially enacted by a Washington ukase early this year, to base NATO war-fighting strategy on a "limited" nuclear counterforce first-strike against the Soviets. This strategy, the West Germans emphasize, is premised on a false assumption that the Soviets will make a "limited" response to a "limited" NATO nuclear first strike. On the contrary, the West Germans say, the Soviets will respond to such an attack with a total thermonuclear bombardment. NATO is not prepared to withstand such a Soviet response — premised on all-out atomic-biological-chemical warfare — and vulnerable West Germany will be one of the Soviet's primary targets.

### **The West German solution**

The West Germans' solution to the NATO policy question places them in the forefront of the voices calling for reason in response to the London-Washington war drive. The key to the West German policy lies in the 25-year economic development package negotiated last May by Chancellor Helmut Schmidt with Soviet Presi-

# to suppress

dent Leonid Brezhnev. The signing of the package demonstrated to the world that West Germany and the Soviet Union see their strategic interests as best served by peace — no confrontation. Moreover, these accords established the strategic foundations for the European Monetary System. The latter institution, the centerpiece of the alliance between Schmidt and French President Giscard d'Estaing, is in the process of realizing what Schmidt calls "a European superpower for peace."

Yet when Schmidt negotiated his historic accords with Brezhnev last year, he almost certainly did not envision the vehemence with which his nation would be publicly attacking NATO policies within less than a year. Last week's debate was a response to a series of provocative Washington and British actions against the EMS and the growing detente with the Soviets: the London-engineered Iran Crisis, the Chinese invasion of Vietnam, efforts to beef up NATO nuclear forces in West Germany, and the Carter-London fueling of the Middle East crisis. All these are seen in Bonn, and elsewhere in Europe, as a grave threat to world peace which must be answered with measures that might have seemed unthinkable a year ago. Within the past several months, West Germany, the leading power in NATO, behind the United States has taken the unprecedented steps of canceling NATO maneuvers scheduled to occur on West German soil and of publicly attacking NATO policies as articulated by Washington, London, and Brussels, culminating in last week's carefully prepared blasts at the Atlantic Alliance in the Bundestag.

At this point, West German objections to U.S. policies center not on any particular blunder, the "China card" e.g., but on recognition that U.S. policy under the Carter Administration is fundamentally insane. The diplomatic formulation coming out of Bonn is that "U.S. policy is full of surprises," but it is evident to all of Europe that West Germany, in conjunction with France (which pulled its troops out of NATO more than a decade ago), is moving away from the postwar system

## How Britain dominates NATO

Although the NATO Supreme Commander is always an American, the cases of recent commander holders of that post illustrate some of the methods by which British are able to dominate the Alliance.

Lame duck Commander, General Alexander Haig, a protégé of London-trained Henry Kissinger, is a notorious and outspoken follower of British strategic doctrine and policies.

His successor, General Bernard W. Rogers, promises to be no different. NATO's new commander comes well qualified for British tastes. Graduated from West Point in 1943, Barnard Rogers received a 1947 degree from Oxford under a Rhodes scholarship. Following his first command in Korea, Rogers served under his patron, Maxwell Taylor of the Joint Chiefs of Staff, as Executive Assistance Officer. A follower of Taylor's war-losing doctrine in Vietnam during his command post from 1967-1969, Rogers was then appointed to the Pentagon as Army Chief of Staff during the Ford Administration.

It is his stint as a Rhodes scholar that is key to Roger's Anglophilism, observers say. The scholarships were established by Cecil Rhodes explicitly to foster the reannexation of the United States into the British Empire, and to expand the Empire's influence globally. Scholars even today typically return from the banks of Oxford's river Isis flushed with the spell of oligarchic Britain.

Other notable Rhodes scholars illustrate the point. They include:

Harvard professor William Yandell Elliot, patron of Henry Kissinger; Hedley Donovan, Editor-in-chief of *Time* magazine; foreign policy hawk W.W. Rostow; and Schachtian economist Robert Roosa, partner, Brown Brothers Harriman and director, American Express. Roger's year, 1947, produced a notable crop: Nicholas de B. Katzenbach, former U.S. Attorney General, and General Counsel for IBM; Thomas L. Hughes, President, Carnegie Endowment; and Stansfield Turner, director, CIA. Another member of the U.S. policy team in Europe, Richard Gardner, currently Ambassador to Italy — who is under attack for his intrusions into Italian domestic affairs — was a Rhodes scholar in 1951.

of "geopolitical" alliances built by Great Britain and successive manipulated U.S. administrations. Indicative of this shift are West German and French efforts to sponsor membership of Spain, Greece and Turkey in the European Economic Community, and eventually the European Monetary System, without Spain's officially entering NATO — a condition which Britain has placed on the table to block Spain's integration. This policy is consonant with Germany's overall policy of maintaining NATO's defensive character and present membership, so as to ensure the mutual security of NATO and the Warsaw Pact nations.

But is that policy enough? In fact, the logic of present NATO strategy as defined in London, Washington, and Brussels is forcing West Germany to confront the question that French President de Gaulle confronted when he pulled French forces out of NATO in 1966. One indication of that turn: while NATO headquarters denounced Soviet President Brezhnev's recent proposal of a nonaggression pact among the signers of the Helsinki Treaty as "propaganda," the Bonn government treated the proposal as a serious one. If adopted, Brezhnev's plan would mean a fundamental reorientation of NATO outlook.

### **What is NATO?**

To understand West Germany's attitude toward the Atlantic Alliance, some fundamental facts about its history must be recalled.

Originally, the NATO alliance was a purely "geopolitical" entity created by Great Britain for the purpose of preventing the postwar continuation of the World War II alliance between the United States and the Soviet Union. In fact, the United States' entry into the alliance was nearly blocked — on constitutional grounds that were only glossed over in the final Senate ratification of the treaty — and the U.S. made no significant contribution to NATO until 1950-1951, when the carefully managed Korean conflict erupted, forcing the significant U.S. opposition to the alliance into silence. The NATO structure allowed the British colonial military apparatus to virtually dissolve itself into the alliance and bring under its control the resources of the other NATO member nations. Under the Truman administration, for instance, practically all the parameters for determining U.S. policy were defined by Britain, including military secrets, espionage and general defense policy. Though President Eisenhower was able to make limited initiatives for peace and detente with the Soviet Union, the machinations of an Anglophilic U.S. foreign policy and intelligence apparatus under the domination of the Dulles brothers placed the United States on a head-on confrontation course with the Soviet Union time and again under the Eisenhower administration.

NATO's mission was not solely directed against a potential U.S.-Soviet entente; since 1902, British "geopolitical" doctrine has been dedicated to the breaking

up of potential and/or actual industrial development-based alliances between Russia and Germany (the "heartland"), the United States, and Japan. It is this strategy which has defined British military-strategic doctrine through two world wars, and which guides NATO today.

It is this fact, that NATO policy is as much directed against its own "members" as it is against the USSR, that accounts for the strange role of the British Army of the Rhine in the Federal Republic today.

A puny force of about 36,000 British and Canadian soldiers combined, the Army of the Rhine represents no military capability of significance against the Warsaw Pact forces arrayed against it. Its "mission" is as an occupation force used to blackmail successive West German governments. It is well-documented that many incidents of terrorism — of both left-wing and right-wing varieties — have stemmed from British military headquarters in West Germany. In fact, the notorious British Special Air Services units are rotated between Northern Ireland and West Germany.

### **The crucial issues for Germany and NATO**

Under its presently defined goal of blocking the possibility of long-term economic collaboration between the nations of western Europe and North America and the nations of central and eastern Europe, NATO can only be a destabilizing force in world affairs, one which obstructs the possibility of lasting peace.

What is required in place of British-defined geopolitical adversary relations is a "community of principle" among nations that fosters trust through economic and political cooperation for technological progress and industrial development, especially in the underdeveloped sector. Without such a series of economic arrangements, which provides the foundations for systematically placing political collaboration in its proper setting, the possibilities for preventing war are reduced to virtually nil.

There are several issues facing West Germany in the effort to continue the war avoidance policies which Schmidt and Giscard have set into motion.

First, can it break through such blackmail methods as those represented by the activities of the British military, the threat of an oil boycott, and various other destabilization operations? In following reports, we review the evidence that Schmidt is in a better position than any previous postwar leader to chart an independent course for the Federal Republic.

Then there are crucial, specifically military issues. Foremost among these are the Mutual and Balanced Force Reduction negotiations, which Schmidt recently revived and which are now proceeding in Vienna. Schmidt has agreed that NATO's demand for removing a crack, 30,000-man Warsaw Pact tank force stationed near Dresden is no longer a vital strategic issue. Schmidt declared he would settle for a general 30,000-man reduc-

tion in equivalent NATO and Warsaw Pact forces. In Bonn last May, Soviet President Brezhnev acknowledged that the parity principle in troop reductions is negotiable, keeping alive options for a comprehensive approach to resolving the critical differences which still remain in the talks.

Also of significance are recent West German statements that they do not desire to have upgraded U.S. IRBM missiles stationed on West German soil. It was these so-called forward based systems, which the NATO command under lameduck commander Alexander Haig did not want to discuss or negotiate at all, that in fact pushed the Soviets to develop the SS-20 ICBMs — most of which are aimed at China. The German posture represents another potential opening for further negotiations toward a general disarmament conference. However, as long as the U.S. continues to undermine the basis for a SALT II agreement, there appears little that West Germany can do in this direction.

Provocative NATO maneuvers on West Germany soil — some designed to simulate a NATO nuclear first strike against Warsaw Pact forces — have come under severe attack by Defense Minister Apel. At a Wehrkunde conference in Munich last month, Apel produced a major NATO study which argued that there was no need for such maneuvers, not only because the damage they cause to the West German countryside is not only irreparable, but because, fundamentally, they do not reflect the security needs of West Germany. Two weeks ago, Apel canceled NATO's Reforger '79 exercise.

#### **DeGaulle and Adenauer — an independent Europe**

The general strategic thinking of Helmut Schmidt and Giscard d'Estaing reflects the attempt of their predecessors Charles de Gaulle and Konrad Adenauer to place Europe out from under Anglo-American control. Though de Gaulle pulled French forces out of NATO in 1966 as a result of the dangers of thermonuclear confrontation with the Soviet Union, provoked by the Alliance, his and Adenauer's quest for a truly sovereign and independent Europe fell short of the mark after Adenauer was forced from office in 1963 by a series of contrived political scandals initiated by the British dominated West German press.

The world is now at the point again where either war avoidance policies or war confrontation policies predominate. The same realities that de Gaulle and Adenauer confronted have been brought to the fore for Giscard and Schmidt. If the world is going to realize a new age of industrial and scientific prosperity, then Europe must become in the short term ahead a true independent superpower for peace — and this requires drastic surgery for NATO.

— Paul Goldstein

## The interchange in the Bundestag

*In a parliamentary debate punctuated by noisy interruptions from the opposition, West German Chancellor Helmut Schmidt emphasized the Federal Republic's role to bring economic stability and peace to Europe. His remarks, which constituted one side of the debate, were augmented by similar comments from West German Defense Minister Hans Apel and Social Democratic Party parliamentary leader Herbert Wehner in the Bundestag discussion March 9-10.*

*The opposite view that Germany must participate in a NATO-directed arms buildup to preserve its sovereignty from aggression was voiced by Christian Democratic Union opposition parliamentarians Helmut Kohl, Alfred Dregger, and Manfred Woerner. Here are excerpts of the debate, including the interruptions as they occurred. Chancellor Schmidt speaks first; other speakers are indicated by name.*

... They (the Christian Democratic Union opposition—ed.) have also spoken, and several of their speakers have also acted as if security in Europe had decreased in the last few years. The opposite is the case: Europe today is the very continent which is the most secure, in spite of the accumulation of the greatest military potential, if I am permitted to disregard Australia....

And the fact that this is so was by no means self-evident, when one remembers the Berlin crisis at the end of the 1950s, and at the beginning of the past decade, in the year 1961, when one remembers the Cuban missile crisis in 1962, and when one remembers the Czechoslovakian crisis and all of the events in the course of the past decade. But it was also precisely during this past decade that the first feelers were put out in the detente process between both of the major nuclear powers at that time.

And at the end of the 1960s, the Federal Republic of Germany participated in this process—with good success—and this process is the reason for the relatively greater security which all the people of Europe are enjoying today to some extent in comparison to the previous decade, at the beginning of the past decade, and at the end of the past decade. This has also led to a new consciousness about responsibility for peace in Europe, to a new understanding of security, and to the recognition that existing tensions must be mutually checked or reduced....

... The general feeling of security in Europe, or, to begin with ourselves, in Berlin, in Germany, and in Europe, has increased overall—and it has correctly in-

creased, and Europe is actually conscious of (and it is a justified consciousness) a strongly increased, generally mutual security. This development of both of the last decades, the 1960s and 1970s, has shown that there is no security if the other person too doesn't feel himself secure, or, to paraphrase a well-known phrase: Security is always the security of the other person too.

If I am allowed to add a word or two here ... then I would like to say with equal emphasis that this is no one-time thing that people do once and then can keep, but a constant, increasing task, because, sometimes, even economic and social influences effect changes and instabilities that can bring about new dangers. Even the military balance of power is not a one-time task, but a constant one. It is not necessary that there be a total arithmetic or mathematical identity among all the different kinds of armed forces or weapons—the military balance of power must be *generally* maintained.

... I will say it again: a policy of balance is by no means strictly limited to the military sector, if it is to bring success in securing the peace along with it.

This fear on both sides, which played such a great role here yesterday on the German side—while the other side wants to use arms limitation in order to get political advantage for itself—this fear on both sides can only be overcome by long term processes and developments in building confidence, and these processes must be continued.

Naturally, even in an era of detente, acute conflicts, unforeseen conflicts can occur—and what is necessary here is a command of crises, and the capability to end the crisis. One of the preconditions for this is that the parties potentially in conflict remain in contact with each other. It is important that the statesmen in the world speak with each other *before* a crisis occurs, so that they know what they can expect of each other, in case it does occur. I would also like to say that we, here, have contributed significantly towards the ability and the will, we have contributed a great deal so that leading persons in positions of responsibility get to know each other.

Here I want to refer—without appearing arrogant—to the continuous contacts that the Chancellor of this state has entered into with all the leading statesmen from both sides, and which have been supported even by Eastern Europe—not only in the West—and I must tell you that I hope very much that it will finally come to a meeting, to personal acquaintance between Mr. Carter and Mr. Brezhnev. I consider it to be a mistake that both of these two persons do not know each other. (ap-  
plause)

Overcoming crises requires the political will to shun provocations from the other side; it requires the will and the capacity to make one's own options, one's own negotiating possibilities unmistakably clear to the other,

and it requires the will to take the cutting edge out of dangerous situations by one's own readiness to compromise. It demands the will to make it possible so that the participants can save face.

The greater the calculability of the political—and also the military—conduct of a participant, all the more less is the danger of an acute crisis. And a precondition for calculability is the transparency of one's politics, the plausibility of what one is striving for. For example, we are striving for more transparency in the instruments of military power, and even in the instruments of economic power that go into armaments, because only this will make possible progress in the formation of mutual confidence. This goes for SALT, this goes for MBFR.

Transparency, and the predictability of one's own policies ... I would be thankful if we could recognize the policies of all the other partners in Europe as being characterized by the desire for transparency, by the transparency of those governments...

*(After several attacks on West German government policy by opposition politicians Helmut Kohl, Alfred Dregger, and Manfred Woerner):*

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## Defectors scandal, Luns's

Attacks on NATO policies from leading West Germans are not the only problems that the Alliance and its West German friends are confronted with. Within the last two weeks, four secretaries in NATO headquarters in Brussels, and in the Bonn headquarters of the West German Christian Democracy, defected to East Germany. Although this is a severe problem by itself, the damage has been compounded by documentation from one former secretary, Ursel Lorenzen, that NATO is using its on-going WINTEX and CIMEX command staff exercises to prepare the authoritarian civilian and military control needed to carry out a first nuclear strike against the Warsaw Pact.

Unfortunately for NATO, Ursel Lorenzen knows what she has been talking about on her East German radio broadcasts. For 10 years she was the secretary for British NATO diplomat Terence Morgan, Director of NATO Council Operations, who was in charge of organizing NATO's semi-annual command staff exercises.

Her broadcasts have also covered such topics as NATO's stake in political destabilizations of the Warsaw Pact, NATO's intention to use China as a NATO surrogate against the Soviet Union, and

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I worked on putting this alliance together, its deterrence and its (defense) policy. That was 20 years ago, and I do not think you remember how it was then, when that attempt at detente failed, when the Paris summit meeting between East and West failed.... I understand that some of you do not know, but some of you do, Messrs. Mertes, Marx, and maybe Woerner, just how badly a German government in the 1960s burned its fingers, not only with the East but also with the West, on the issue of the Multinational Nuclear Force in NATO ... The American government let that drop faster than the Germans knew what was happening. I would enjoy seeing you get your hands burned in that way. (*Dregger then shouts that Schmidt should make unpopular decisions against the left wing in his own Social Democratic Party.*)

You know, I do just that, and not only in military strategic questions, but in many areas I weigh the facts and both sides of the argument and I decide according to my oath of office and my conscience. But I would like to let you know a secret of my political experience. When one decides according to his conscience, even

against the prevalent stream of popularity, then in fact it turns out that you win popularity.

*Helmut Kohl:* Schmidt, you don't get your policy through because you are a coward, you are too much of a coward to confront Herbert Wehner.

*Schmidt:* Mr. Kohl, you are very sensitive when it comes to political criticism. I am not. I have a very thick skin. But, I also have the power to hit back. You had better think over whether you have the right or the legitimacy to accuse me of being a coward in this parliament. And your information on my alleged position on the neutron bomb is wrong. Unless, of course, you have confidential documents from meetings you did not attend, and those documents are forged.

*Hans Apel:* Security is of course, one precondition for the well-being of a country. *But war is not the father of all things, peace is,* and that means the social and economic well-being of a country is a decisive contribution to its defense efforts. Defense expenditures, yes, but

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## past bedevil NATO's friends

NATO General Secretary Joseph Luns's strategy for dealing with the revelation of his Dutch Nazi past (see below.)

The three East Germans who worked for the Christian Democracy in Bonn, Christel Broszey, Inge Goliath, and Ursula Höfs, have been silent about their activities, but this has not calmed down the CDU. Both Broszey and Goliath fled to East Germany, while Höfs was arrested by West German authorities. As in the Lorenzen case, key CDU offices were targeted, with Broszey being the secretary to CDU General Secretary Kurt Biedenkopf, while Goliath worked under Werner Marx, CDU spokesman on East European affairs.

It is well known in CDU circles that both Broszey and Goliath typed confidential internal party memoranda, and both knew of the CDU's support for the China card, in addition to the inner party faction fight between Biedenkopf and CDU Chairman Helmut Kohl.

The fact that both Biedenkopf and Marx are vociferous anti-communists who constantly attack the ruling West German Social Democratic Party for being "soft on Communist infiltrators" has increased the shock in CDU headquarters.

### Luns

The Lorenzen spy case could not have occurred at a worse time for NATO. Several weeks before Lorenzen defected, NATO General Secretary Luns was already under attack for his membership in the Dutch Nazi NSB party from 1933 to 1936, after the Dutch War History Institute confirmed that his name had been on the NSB membership lists for the years stated.

Luns's explanation for this damaging fact was that his brother, an admitted Dutch Nazi, had signed him up in the NSB, and kept his name on the rolls for three years, after which Luns's name was taken off the lists, all without Luns's knowledge.

Lorenzen shot down this already shaky excuse by stating it was well known in NATO headquarters that the only person who signed Luns up for Nazi membership was Luns himself. The fact that E. N. van Kleffens, a former Dutch Foreign Minister under whom Luns served, stated that if Luns's Nazi past had been known in 1937, he would never have been allowed to serve in the Foreign Ministry, has only reinforced Lorenzen's charges.

—James Cleary

there is a close relationship between external and social peace. Our country is defensible only as long as the social and domestic peace is maintained.

Defense goes with detente, and neither can be ignored. Military imbalance produces insecurity, and defense is a precondition of detente, but whoever says that detente is either ended or dead, I have to ask him just where he wants to let us be driven. Foreign Minister Genscher has spoken of this. I am very sorry that Genscher is not here, so that he himself could say that no difference exists within the government on the evaluation of military security. We want him back in a good state of health because we cannot do without him.

Genscher had said that "Our treaties related to detente will be fulfilled." This policy is not an episode, but is laid out for the long term. Both East and West have an interest in continuing detente.

*Manfred Woerner:* There is only alleged unity here. How do you explain Herbert Wehner's interview to the "Radio In The American Sector" where he attacks the idea of an axis (between Bonn and Washington—ed.)?

*Apel:* We have published the government's answers. I am not going to allow myself to be distracted by this sort of question. Formulations sometimes used may be irritating, but I must say that when it comes to irritating formulations, you of the opposition are masters of it.

*Herbert Wehner:* I do not attack anyone among you for wanting war. But I warn you not to endanger the relatively political detente we have achieved thus far. The Conference on Security and Cooperation in Europe has not been fully exploited yet. The Brezhnev proposals ... indicate that Moscow, too, thinks that the CSCE can be further developed ....

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# How the Germans

"I know the Soviet leadership. They are responsible men and do not intend to start a war." With these words to the West German Bundestag (parliament) on Feb. 15, Chancellor Helmut Schmidt rejected the entire basis of British and American NATO policy and its pretext, "Soviet expansionism."

Ten days earlier, Schmidt's party whip in parliament, Herbert Wehner, told a Dutch reporter that blaming the Soviets for lack of progress at Mutual Balanced Force Reduction talks in Vienna was simply a "fraud." "The Soviets do not have their tanks" in Central Europe "in order to conduct an aggressive war ... The Soviets have made proposals ... the Western side people have not reacted ...

"I find it improper to put the Soviets alone in the defendant's dock about this question of armament and disarmament," Wehner went on. "Do not overlook the American radio stations, Radio Free Europe and Radio Liberty, who beam their broadcasts into the East bloc ... When it comes to riots in Poland because of the tight economic situation ... then Radio Free Europe acts as though it is based on Polish territory and gives advice to the rioters ... It is a frightful thing.... Taken with critical developments in Iran — I am brave enough to admit that one really must shudder ... a crisis could develop once again in Europe that could conjure up a confrontation between both superpowers."

Such statements now form the cornerstone of West German political-military thinking. The Soviet and Warsaw Pact forces pose no offensive military threat, unless provoked intolerably. The problem is NATO and its policy of provocation. NATO policy must change.

That view formed the cornerstone of the views expressed by government spokesmen in the March 9 and 10 Bundestag debate; but that debate was prepared over approximately a two-month period by a series of statements — primarily issued by parliamentary leader Herbert Wehner — which defined the terms of the debate. *Executive Intelligence Review's* West German bureau followed the situation closely. Based on their reporting, the following reviews the past months' developments.

West German dissatisfaction with NATO policy has been growing since 1975, with the secret introduction of the MC14-4 "limited nuclear war" or "counterforce" doctrine into NATO policy planning. That dissatisfaction crystalized more recently with the announcement from Washington that "counterforce" is official U.S. military doctrine for deployment in Europe. That announcement coincided with British and American playing of the "China card" — "counterforce" in Asia

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# developed their view

— also of grave concern to Germany and other European nations.

Since counterforce means NATO “sacrifice” of Central Europe in a “limited nuclear exchange” with the Soviets, West Germany has reacted sharply, in the interests of national preservation, as well as world peace. This signifies a determination on their part to change NATO policy from one of “counterforce”-confrontation and “rollback” of Soviet bloc frontiers to one of detente-in-fact.

The Schmidt government is now openly confronting the U.S. and Great Britain in a battle for control of NATO.

West Germany is in a powerful position to win this battle. At home, Helmut Schmidt enjoys unprecedented support from the BRD electorate — polls place his support at 70 percent of the population. By comparison, the beloved Konrad Adenauer never enjoyed more than 62 percent support in similar polls. Schmidt is virtually impregnable to destabilizations of the “spy scandal” or other sorts which have been the traditional Anglo-American answer to dissidents within the alliance.

## Feb. 23: No Washington-Bonn Axis

The policy difference was exhibited publicly on Feb. 23. West German Defense Minister Hans Apel was returning from a hurried visit to the United States when he was asked “about a stronger Bonn-Washington axis as the new backbone for NATO.” Such an axis to revitalize NATO would entail West German acquisition of more advanced weapons systems, including nuclear weapons systems.

“That would bring about the end of NATO,” replied Apel. “It would also weaken West Germany’s international position, mainly among Warsaw Pact states. There would be mistrust in the East, which probably could not be overcome, and everyone would think we are only doing that to get a grab on nuclear weapons. We are not a nuclear state and do not want to become one.”

A military commander in Apel’s ministry who took part in the Washington trip was blunt about what transpired in the talks. In an interview with NSIPS reporters, he stated: “We do not agree that it is good to use China as a lever for confrontation with the Soviet Union.... What China is doing right now is not in the interest of world security as a whole. We also argued that there is no use in anyone, and in particular the U.S., trying to use China this way. If we were to do that, then the

Kremlin could get the impression that it is surrounded by hostile forces.”

## Feb. 18: Apel at the Wehrkunde

That was not the first West German denunciation of the “China card” and related features of NATO’s encirclement strategy. Before an audience packed with high-ranking British and U.S. NATO officials demanding a heavy NATO arms buildup, Defense Minister Apel told the Wehrkunde Association meeting in Munich Feb. 18-19: “Today we live in a world with manifold competing claims and conflicts. New conflicts of interest stand out.... It is a world of mutual dependencies which make all states part of a global alliance of fate. He proceeded to outline West Germany’s alternative to current NATO policy. “This means a two-fold challenge: First ... a balance of power is the goal.

“Second, the Western nations must deal with the tasks of global interdependency. This means the construction of a global order of cooperation among industrial nations and the Third World, so that hunger and poverty can be fought together and so that the future of us all can be secured ...

“Detente ... means cooperation must be strengthened in such a way so that fields of conflict are reduced and finally eliminated... ”

“Economic power and the freedom to negotiate for economic policy are indispensable to contribute to the military balance of power, to detente, to a world economic system that functions efficiently, and to the North-South affair ... Without sufficient economic strength in the construction of a social order that is capable of functioning, the countries of the Third World will be prevented ... in their efforts towards the establishment of industry.”

Having defined the West German notion of proper NATO detente-policy, Apel launched the attack.

“We are against the division of the world into zones of influence according to the East-West conflict. We are for the independent development of the Third World ...

“I do not belong to those people who promise that something good will come out of the present rivalry between the People’s Republic of China and the Soviet Union, either for Europe or Asia ... The policy of the Federal Republic of Germany recognizes no ‘China card’... ,

“We will not send any weapons to China. Our position on this question is very clear. We have neither economic nor political interest in becoming a weapons

supplier to the Third World.... We are not carrying out a policy to postpone a Third World War, but to prevent one."

Apel's challenge was not sudden or unexpected. It was clearly and frankly expressed as early as Feb. 1 by Herbert Wehner that any anti-Soviet alliance between China and the U.S. (Wehner told a West German newspaper while Teng was in Washington) would be "completely disastrous." At approximately the same time, the Schmidt government cancelled NATO "Reforger" war-games, part of "counterforce maneuvers" on West German soil, due to bad weather."

On Feb. 5, in another press interview, Wehner specifically attacked NATO negotiators for stalling the MBFR Vienna talks. Proposals from the West are "still insufficient.... There is a philosophy," he continued, "according to which there is something threatening from the Soviet Union ... What they have (militarily in Central Europe) we have to take into account ... but all of it is exclusively defensive and not meant for aggression."

Chancellor Schmidt, Feb. 7, affirmed that between him and Wehner, there was "no controversy," telling a meeting of the Social Democratic parliamentary fraction (which Wehner heads) that if West Germany is forced to choose between the U.S. and the Soviet Union over the issue of China, relations with the Soviets will take precedence.

Meanwhile Wehner, in a barrage of statements given to TV and newspaper interviewers Feb. 6-10, hammered continuously at the present danger of world war. In one interview, he exposed secret NATO plans to run a computer-simulated model for World War III, termed "Wintex." In another, he said the war-threshold nature of the current world situation is comparable to that of September 1939, when Hitler's forces invaded Poland claiming falsely that they were merely "returning fire."

## March 9-10: the debate

All this set the stage for the March 9 and 10 Bundestag debates, which became the scene of a rout of pro-NATO spokesmen for the opposition Christian Democratic Union. Below, we highlight key aspects of the debate, including interchanges not covered in the preceding excerpts.

On March 9, Hans Apel addressed the parliament on behalf of the ruling coalition. "Security, of course is one precondition for the well-being of a country. But war is not the father of all things, peace is."

On March 10, Chancellor Schmidt spoke: "Security

is always the security of the other person, too. There can be no security if the other side feels threatened. Therefore, we have to concentrate on building trust between nations."

Schmidt was quite explicit in placing the blame for international conflicts in the modern day. He praised the Soviet Union for its reaction to the Chinese invasion of Vietnam. "I can only approve the reservation and wisdom the Soviet Union has shown; let it be known that no one can ever profit from crises in Asia." Schmidt again scorned the China card, and in effect, absolved the Vietnamese of any responsibility — by denouncing the genocidal policy pursued by the toppled Pol Pot regime in Cambodia.

Such statements infuriated the Christian Democratic leadership composed of a significant number of Anglo-philosophers steeped in the "security" doctrines of Henry Kissinger and Alexander Haig (and Teng Hsiao-ping: "War is inevitable."). Reportedly, CDU leader Kohl had prepared for the debate by studying one of Henry Kissinger's books.

Free Democratic spokesman Hoppe: "Both the daily Frankfurter Allgemeine Zeitung and the CDU have said that detente is dead, but ... Europe is one of the few areas in the world politically, economically and militarily still intact. We have thus proved, we Europeans, that it is possible to secure the peace and defuse conflicts."

One new development revealed by Schmidt was that Soviet President Brezhnev had expanded his offer of a nonaggression pact with West Germany to include all 30-odd states in Eastern and Western Europe. "The proposed non aggression pact," said Schmidt, "goes far beyond what was implicit in the older limited proposal for banning first nuclear strikes ... (it) should be investigated more cautiously" than the first, which was rejected.

CDU spokesman Alois Mertes then said that "the Russians cannot be trusted. Russia considers all strangers as enemies of Russia ... and Wehner even criticized the Christian Democracy in front of the Communist regime in Prague ... There should not be any appeasement towards the East."

At this point, Chancellor Schmidt seized the floor. "Twenty years ago, I don't think you remember how it was then, when the attempt at detente failed, when the Paris summit meeting between East and West failed ... I would enjoy seeing you getting your fingers burned that way ..."

— *Vin Berg*  
with James Cleary (New York)  
and George Gregory (Wiesbaden)

# EMS summit pushes technology

## *Giscard receives mandate for conference with Arabs, Africans*

French President Valéry Giscard d'Estaing and West German Chancellor Helmut Schmidt closed the March 12-13 Paris meeting of European Community (EC) heads of state by stating that "the most important event to have taken place at this summit is the implementation of the European Monetary System." Giscard elaborated: "The planning and implementation of the EMS took place against a background of international crisis. One of the aims of the EMS is to alleviate these crises. The EMS has been designed as a contribution to peace, cooperation and security."

The official summit communique cites (1) the necessity, under the EMS, to coordinate European economic policy more intensively, and (2) the need to reduce Europe's dependence on energy imports 50 percent by the mid-1980s.

The U.S. and West German press tended to play up the second pledge as a commitment to energy conservation or austerity, along the lines of the International Energy Agency's guidelines. The communiqué itself indicates that this is not the case, specifying that the Europeans expressed their agreement with the recent Saudi Arabian government proposal for a conference among oil producers and consumers, and the Mexican proposal along the same lines for global consultation on energy.

Moreover, the summit gave Giscard a mandate to proceed on his own proposal for a European-Arab-African conference on mutual security and cooperation. The West German business daily *Handelsblatt* March 14 cited members of the West German summit delegation endorsing Giscard's approach as "logical and proper." Giscard will discuss implementation with the president of the Organization of African Unity, Edem Kodjo, and the General Secretary of the Arab League, Mahmoud Riad.

These discussions will proceed along the lines of the new proposal made by the francophone African countries to the Group of 77 developing countries which met in Tanzania in late February. There, Senegal and Ivory Coast successfully proposed that the Group of 77 junk its 1976 proposal for a "Common Fund" commodity price support system as inflationary. Instead, the Group of 77 now wants the OECD to work out a system of "technology transfers and loans for industrial develop-

ment," a State Department source said, which would help produce new markets for the OECD nations.

### **Oil as the Instrument of Development**

The immediate background to these summit developments clarifies where EMS founders Giscard and Helmut Schmidt of West Germany intend them to lead. "...The question of the need for links between oil producers and consumers...is currently being examined by governments and organizations on both sides," the authoritative *Petroleum Intelligence Weekly* reported March 12.

Giscard had just returned from a spectacularly successful trip to Mexico, where he secured five million tons a year of Mexican oil for France, starting next year, and up to \$4 billion worth of industrial and technological contracts. The trip made concrete the "political maturity" they share, as Mexican President José López Portillo put it, in pursuing what Giscard termed "the reason of peace." Secondly, Schmidt has maintained ongoing coordination on behalf of the EMS with Saudi Arabia, as indicated by Saudi oil minister Yamani's unscheduled trip to Bonn the week before the EC summit.

The advanced extent to which Giscard and Schmidt are intending to put the entire question of oil for technology transfers on a top-down, EMS-financed basis was shown by a proposal circulated at the EC summit by the EC commission for an EC investment program in nuclear power and other alternate energy resources of \$370 billion (!) by 1990, *Platt's Oilgram* reported March 12. This proposal, among others, will be debated at the March 27 EC Council of Energy Ministers meeting.

### **Curing the "British disease"**

The broader background is the EMS institutionalization of something continental Europe has known but has not consistently acted on when faced with Anglo-American pressures: the future of the world economy depends on the economic development of the so-called Third World, and development requires active peace. The EMS, when it emerged last July, was designed to provide both diplomatic and financial channels for ensuring that London, and the London affiliates in the

Carter Administration, cannot disrupt the Franco-German-Russian-Japanese potential to industrialize the globe, as they did in 1905-1919.

As the EMS went into effect, Prime Minister James Callaghan stated: "Under these circumstances, I cannot bear responsibility for keeping Great Britain in the EEC." Britain is not a member of the EMS currency arrangements, and its claims to a policy voice in the EMS's emerging European Monetary Fund have been rebuffed. Schmidt, according to the *Frankfurter Rundschau*, simply told Callaghan at the summit that Britain had received enough concessions in the past and should stop raising more demands now. Britain is now "isolated in a unique way," said the March 14 *Le Figaro*.

This is only secondarily a question of the UK's national standing. The opposition is to put it most sharply, between London's international policy of thermonuclear arms showdown and the EMS policy of thermonuclear energy proliferation. Giscard's offer of extensive nuclear power collaboration, with Mexico (see EIR, vol. VI, no. 10) backed by the Electricité de France state power monopoly's campaign for nuclear power throughout the Third World, shows precisely how the EMS policymakers intend to reduce "import dependency" for themselves and their developing-sector partners. The French government announced the day of the summit an ambitious new domestic nuclear program to produce no less than 30 new nuclear plants within the next few years.

#### **On track for gold**

The summit meeting formally ratified the creation of the EMS's fixed-rate currency grid, minus Britain, at the

parities the member central banks had already essentially established since January. Otto Wolff von Amerongen, chairman of the West German national chamber of commerce, publicly identified the next step the same day when he stated, "The EMS is a very good thing; we expect non-EC countries like Japan to join it." Another incident reminded observers that the EMS was explicitly premised on the ground-breaking 15-year economic cooperation agreement of May 1978 between Schmidt and Soviet President Leonid Brezhnev. Senior Soviet international official Alkhimov of the Gosbank went to Switzerland the week of the summit to meet with Swiss central bank chief Fritz Leutwiler. According to Italian media reports March 14, the EMS was a key item of discussion. Since July, Swiss bankers and the Swiss government have expressed interest in EMS membership of some sort. Alkhimov had called for "intensified cooperation with Western banks and especially central banks on monetary matters....including the fluctuations of precious metals prices," in an article in the Soviet journal *Foreign Trade* last spring. As we reported last week, the Soviets, who are major gold producers, were noticed selling gold on the international markets this month, at a time when the EMS welcomed a cooling of the speculative price bidup. Further cooperation may indeed be in the works. The irony is that while the old pre-1971 gold exchange standard monetary system was pegged to British colonial finance, the gold reserve system based on some \$35 billion of initial EMF gold-dollar pooling initiated by the EMS will be used to back up a multiple of dollar credits to create self-expanding markets in both the postcolonial world and what will finally become in fact the advanced sector.

— Susan Johnson



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## INTERNATIONAL CREDIT MARKETS

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### Oil crisis tightens international bond markets

The upward spiral in the price of oil and other imported raw materials is pushing up interest rates and destabilizing bond markets in the leading economies of Western Europe and Japan. Hardest hit are the capital markets of such former "strong currency" countries as West Germany, Switzerland, and Japan, which have up till now benefited from relatively low interest rates.

In West Germany, which relies much more heavily on imported oil to fill its energy needs than does the U.S., wholesale prices rose by a stunning 3.1 percent during the month of February. A 9.1 percent increase in the cost of light heating fuels was responsible for much of the rise. The Bundesbank has already moved to restrain money supply and credit expansion during the last month and a half and there is now speculation that an increase in the central bank's discount rate—presently at a low 3.0 percent—could be the next step.

The oil price rise not only threatens to depress capital investment in Europe and Japan, but also threatens Franco-German efforts to create a "development dollar" under the aegis of the newly-formed European Monetary System. To summarize, the Franco-German plan was that the EMS and Japanese central banks would soak up much of the footloose Eurodollars currently glutting world markets and recycle them into long-term development project loans, at low interest

rates comparable to those prevailing in the German and Japanese economies rather than at the prevailing Eurodollar market rates of 11 percent or more. Unless brought under control, the oil crisis could instead bring rates in the deutschemark sector up toward the high levels of the U.S..

Japan, which must import virtually all its oil as well as much of its food and industrial raw materials, reported a 0.9 percent rise in wholesale prices during February — the steepest rise in almost three years. Similarly, Switzerland experienced a 1.1 percent increase in retail prices in February. This is an extraordinary development given that Swiss retail price inflation was *only 0.7 percent for the whole of 1978*.

Swiss Franc-denominated bonds have taken an especially heavy beating in the last two weeks. The Swiss government had great difficulty finding subscribers for its 2-3/4 percent 12-year issue and dealers now say that coupons of 3 to 3-1/4 percent are required to market any issues with maturities of over ten years. Disaster has also struck the Swiss franc foreign bond sector; the Austrian Kontrollbank's 3-1/2 percent 12-year issue plummeted from an issue price of 99 to 93-3/4 in only one day. The Swiss capital market authorities have responded by lowering the amount of new paper which will be permitted on the domestic market during the second quarter to SF1.3 billion (\$776

million), compared with SF1.6 billion for the second quarter of 1978.

Although the deutschemark sector has stabilized somewhat in the last week, the Bundesbank's tightening, a heavy government deficit financing schedule, and inflation fears have brought yields on long-term government bonds (over four-year maturities) up from about 6.2 percent at the beginning of the year to 7.2 percent at present. A similar deterioration of the deutschemark Eurobond sector has been alleviated by the German capital markets subcommittee's decision to reduce the volume of foreign deutschemark-denominated issues to only DM450 million in March, less than half the February volume.

In another context, the reduced volume of DM borrowing by foreigners might appear as a blessing — the last thing the West Germans (or Swiss or Japanese) want is the evolution of their currencies into secondary lending currencies at the expense of the U.S. dollar. However, what has occurred is not the revival of the Eurodollar bond market — which survives only due to the relative dearth of new issues — but the contraction of virtually all the other major sectors.

The crowning irony is that the British gilts (government debt) market has enjoyed a sudden, albeit temporary, renaissance. Higher North Sea oil earnings, as a result of the jacking up of world oil prices, has propped up the geriatric pound sterling for the last several weeks and has brought a flood of foreign money into Britain, seeking to "lock up" the high 13-14 percent yields available on British government securities.

— Alice Shepard

**BRITAIN:** Columnist Marla Minnicino is on assignment preparing an economic survey of Ireland. Her column will return next week.

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## FOREIGN EXCHANGE

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### London sells yen to pressure EMS

The Japanese yen came under intense pressure during the week of March 12-16, falling as low as 209.50 yen per dollar, a 19 percent drop from its Oct. 31 rate of 175.50 yen. The Bank of Japan spent through the week over \$1.2 billion in intervention — almost half a billion through the New York Fed — to stabilize its currency in the 207-208 yen range.

Most of the totally unjustified selling, which began each day in Hong Kong, was reported coming from British banks intent not on lowering or raising the yen, but on *destabilizing* the yen-dollar-deutschemark cross rate.

The City — and the British Exchequer—are on record as aiming to halt the new European Monetary System (EMS). But London has a problem. The EMS went into effect formally on March 12, continuing to stabilize the dollar in the 1.86 deutschemark range, as well as the DM rate against the continental European currencies. The next objective of Bonn and Paris is an EMS-yen stabilization aimed at coordination of long-term *lending* to the developing sector — jointly — by the European Monetary Fund and the Tokyo capital market.

It is this yen-dollar-DM package against which the new London

speculation is aimed. An inflammatory London Reuters report of Exxon's phase-out of its third-party contracts to Japan began last week's yen run, although the Japanese companies have already replaced the oil with state-to-state deals.

The entire yen drop follows the January prediction of the Bank of England's Sir George Bolton, who said that in the *short* term the United States and other oil-rich nations' currencies would rise — after which the dollar would fall. Precisely. Traders report that the demand for dollars against yen in Tokyo resulted mostly from spot purchases for forward *sales* of dollars. That is, instead of the steady 200 yen per dollar rate which would otherwise prevail over the next months, the speculators are aiming for a dollar peak of say 220 yen now and a trough of say 180 yen in the summer — destabilization for destabilization's sake.

—Kathy Burdman

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## DOMESTIC CREDIT MARKETS

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### Miller predicts higher interest rates

Federal Reserve Board chairman G.W. Miller, flanked by leading U.S. bank economists this week projected a run-up in U.S. interest rates, citing the expectation of oil price increases and "too much credit expansion."

Irwin Kellner, economist for Manufacturer's Hanover Bank told this news service that "Miller must begin raising U.S. rates soon. The rate of inflation is too steep and too much credit is being supplied in the economy despite the moderation of M1 and M2 (the monetary agree-

gates — ed.). I foresee," Kellner added, "Federal Funds hitting 12 percent by the third quarter.

What might be a false start for Kellner's predictions came on March 9 when Federal Funds hit 10.75 percent in the morning without any apparent Federal Reserve intervention. But the Federal Reserve pumped liquidity back into the banking system on Monday March 12 by executing repurchase agreements which brought Fed Funds back to the 10.25 to 10.375 percent range, where they remained

for the remainder of the week.

Miller's statement the next day, March 13, before the American Paper Institute however, indicated that the respite in Federal Funds rates increases was only temporary. Miller told the Institute that consumer spending must be "nipped in the bud," and predicted tighter measures if U.S. inflation is not brought under control.

The chief variable in U.S. inflation is quite evidently the oil and food price inflation spiral.

Rubbing this point in, *New York Times* columnist Leonard Silk wrote in a March 14 article entitled, "Mideast Peace: the Economic Impact," that the U.S. arranged Israeli-Egyptian peace agreement is likely to blow up, leading to a replay of the 1973-74 oil crash.

Such a new oil crisis, Silk proposed, particularly in a war setting, would give U.S. Energy Secretary Schlesinger the powers he has demanded to put the U.S. economy

### Tight supplies

Our gold editor has just received the exclusive account of an embarrassing and potentially devastating setback to the vast Middle East/Indian trade in gold bullion. First, some background. It is an astonishing but well-documented fact that approximately one-half of world gold supplies coming onto the market in any given year are conduited to the ultimate purchasers via smugglers. Although Timothy Green, a consultant to the London-based mining finance house Consolidated Goldfields and a leading authority on world gold smuggling, has mentioned this fact on several

occasions, he has not chosen to stress the point that gold smuggling is generally used to cover-up "dirty money" transactions, including, most importantly, the \$200 billion a year global traffic in illegal drugs. The clandestine gold trading operations are centered primarily in the Middle East, India, and the Far East.

The news of a major blow to the Middle East/Indian trade was reported by Christopher Glynn, also of Consolidated Goldfields, in a Feb. 7 speech to the International Precious Metals Institute in New York City. According to Glynn, the trouble

arose when a new group of gold fabricators squeezed out the traditional manufacturers in the region and decided to manufacture "ten tola" gold bars in a slightly different shape. According to Glynn, "These bars (had been) of a size and shape which, so I am assured, permit secretion in some rather sensitive bodily recesses." (A "tola" is equivalent to approximately 4/10 of an ounce.) Glynn continued:

"Unfortunately, whether by oversight or sheer callousness I am not sure, the new entrants decided to make their bars just a tiny bit longer. They have not been a success. In fact, the whole exercise has been decidedly uncomfortable for both fabricators and customers. I am reliably informed that a new term of rejection has been introduced in the Gulf States: 'You know what you can't do with your ten tola bars don't you!'"

—Alice Shepard

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under full oil rationing. Moreover, Silk added, "there are (other) immediate steps that could be taken, such as imposing thermostatic controls on public buildings, and raising oil prices and oil taxes to curb consumption."

Putting this scenario into implementation would have two effects on the U.S. economy: first, oil consumption cuts translate into immediate production cuts in the heavily energy-dependent U.S. economy. Second, U.S. industry would demand a huge supply of funds to finance such increased oil price flow throughs, feeding the increased demand of funds that the Carter Administration would allegedly like to see halted.

—Richard Freeman

### U.S. trade war versus the EMS

*Treasury Undersecretary C. Fred Bergsten, in a March 7 speech, described the codes the U.S. has proposed for the Multilateral Trade Negotiations at the "Tokyo Round" of 98 nations. The U.S. administration's determination to wage trade war against "advanced" LDCs was made explicit.*

We sought as major components of the new code acceptance by advanced developing countries of increased obligations on subsidies...

...The principal obligation under the new code is a commitment not to use export subsidies on industrial or mineral products ...

...This provision specifically recognizes that export subsidies are an integral part of many development programs, but that they become less necessary as nations develop. The requirement is designed to encourage the phase out of export subsidies as nations become more advanced....

...In the absence of such obligations, we would countervail subsidized imports without an injury determination as in the past. It is extremely important to get as broad participation as possible in the MTN code — and we believe the benefit of recourse to an injury test in the U.S. is a real incentive....

We have had particular problems with government intervention in the investment process ... foreign governments frequently require that for a U.S. firm to do business with the government it must agree to transfer technology to the nation ... a major objective must be to achieve discipline....

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## WORLD TRADE REVIEW

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### Did Blumenthal rig failure of Japan-China trade talks?

As of this writing, Peking is still refusing to approve an \$8 billion loan package offered by a consortium of 22 Japanese banks. If accepted, the loans will be China's first major commercial borrowing and will be on terms surprisingly generous for a country noted for political instability and a shaky pay-back capacity.

The Japanese banks, led by the Bank of Tokyo and Sanwa Bank, have offered \$2 billion in project credits for five years at only 0.625 percent over LIBOR (London Inter-

bank Rate). This compares to 0.5 percent for advanced country borrowers and up to 1 percent or more even for such developing country borrowers as South Korea or Mexico. In addition, the banks have offered \$6 billion in six-month trade credits at a low 0.375 percent over LIBOR. Moreover, the loans would all be denominated only in dollars, rather than half in dollars and half in yen. This means that the Japanese lenders would take all foreign exchange losses should the yen resume its rise.

Nevertheless, China has demanded still lower rates on the long-term loans, threatening to get loans elsewhere otherwise.

#### Blumenthal behind rejection?

Why has capital-starved China rejected a quite generous loan offer from Japan, and done so just two weeks after China's equally rude suspension of over \$2 billion worth of projects from Japan?

According to one Japanese banker, "one of the main reasons for the failure of the loan talks was the interference by U.S. Treasury Secretary Blumenthal. Blumenthal (who stopped in Tokyo during his return from China in early March — ed.) told Japan that it would be unwise to have competition among the free nations for China loans and projects, particularly between Japan and the U.S. He insisted that there be coordination and cooperation for both projects and loans between our two countries. He also said the U.S. would not like Japan to lend at the

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## COMMODITIES

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### 'Common Fund' gets the can

Recent developments around the United Nations Commission on Trade and Development (UNCTAD) certify that the proposal to create a global "Common Fund" buffer stock for commodity price stabilization is finished.

The death knell was sounded by the "Francophone" West African states in Tanzania last month. There, at a mid-February Group of 77 meeting (the "third World side" of UNCTAD) French-allied Ivory Coast and Senegal demanded that

the Common Fund be turned into a global development bank to finance high technology transfers and industrial development loans.

This move by French allies in western Africa, who have been in continuous diplomatic consultation with the French government on raw materials policy since last year, signals another defeat for commodity trading houses and their spokesmen, such as the highly publicized Peter George from Johannesburg, South Africa, who have been attempting to trigger a

sustained boom in commodity prices for 1979.

Although the Common Fund's success — which would have been doubtful in any case — is not necessary to kick off a price boom on the speculative open markets, the concept behind the Common Fund, authored in 1976 by the London School of Economics, is.

#### Inflation pays debt

The idea behind the Common Fund is that commodity price fixing is sufficient to guarantee Third World debt repayment. Simultaneously, the organizations and bureaucracies proposed to run the Common Fund are known to be British-controlled, so that, if enacted, centralization of price arrangements under a Common Fund purchasing bureaucracy would give to British trading and banking networks vast power over "rationing" of continually depleting raw materials supplies.

The recent efforts of London-

low interest rates China was demanding."

Amazingly, while Blumenthal told Japan to insist on a minimal interest rate floor, the week before, in Peking, he had encouraged China to insist on lower rates, according to Washington and Tokyo sources.

Japan's Ministry of Finance advised Japanese banks not to accede to China's demands — for credit risk considerations. But according to Japanese banks, "the Chinese told us they were sure they could get easier terms from other Western nations if we didn't give in." Unconfirmed rumors in the New York banking community are that British banks offered China loans at 0.25 percent — this from a country accusing Japan of "credit dumping."

Geopolitical considerations — not nationalistic competition — are the guiding force behind Blumenthal's curious actions. Blumenthal is out to force Japan to subordinate its economic dealings with China to the constraints of

Brzezinski's "China card" policy. In this effort Blumenthal has three main objectives:

1. To force Japan to "coordinate" loans and project deals with the U.S. administration, giving the Blumenthal-Schlesinger-Brzezinski policy grouping more leverage to compel Japan to adhere to the China card.

2. To shift the content of Japan-China economic cooperation away from the heavy industry-oriented "Japan model" proposed by the Japan Economic Research Center in favor of emphasis on light industry and agriculture. One Japanese observer remarked, "Teng's (vice-premier Teng Hsiao-ping's) policy is not the proclaimed 'four modernizations' but one modernization — military."

3. By forcing Japan to go along with coordination with the Carter administration's military orientation toward China, Blumenthal wants to put Japan's trade deals with China into the hands of

businessmen and advisors surrounding current Prime Minister Masayoshi Ohira who are more willing to go along with Washington on the China issue. At present Japan's China trade is coordinated by the Ministry of International Trade and Industry (MITI) and the Japan-China Economic Association (JCEA), a private industry group led by the ex-chairman of Nippon Steel, Yoshihiro Inayama. The MITI-JCEA group is orienting toward a "Japan model" policy for China and they want nothing to do with a "China card" policy. Inayama heads the Japan-East Germany Economic Cooperation Committee and the JCEA.

In this effort, Blumenthal faces a tough problem. Japan's political and business leaders are convinced that Carter and Teng made an irrational miscalculation by invading Vietnam. Ohira's lukewarm support of Washington during the crisis did little for his political credibility inside Japan.

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connected commodity houses to kick off a sustained 1979 boom in open market prices (which went through its first round during a six-week period starting mid-January) has the same political and economic effect as implementation of the Common Fund: namely, if prices do reach the heights London financial columns have predicted, triple-digit inflation on materials costs to the advanced sector will create funds with which the Third World may pay its debt accounts. The resultant recession in advanced sector industry will then force raw materials production cuts to the point that shortages become inevitable.

In May, the final UNCTAD decision on the Common Fund will be worked out at a full membership conference in Manila. At the close of French President Giscard's Feb. 28-March 3 historic state visit to Mexico, it was announced that France and Mexico would hold consultative meetings to jointly work

out their tactics for the Manila UNCTAD meeting. Presumably, they will strive to garner further support for rejection of the Common Fund in behalf of a development bank design.

Commodities traders in New York and London do not include consideration of these political deliberations in their speculative price analyses.

The effect of France's political show of force in the Third World has only shown up indirectly, in the form of an obvious bout of nervousness and confusion, especially on the metals market, in the aftermath of the January price climbs.

Copper traders, for example, are issuing widely divergent reports about the prospects of a new round of copper price rises, now at \$.85 per pound.

The disagreements about copper revolve around the issue of stockpiling. Sources on both sides of the fence are equally emphatic that the

copper bought from mid-January through February either did or did not simply reflect a shift of unutilized stockpiles from the London metals exchange to U.S. and other industrial consumers.

For the first time, however, on March 14 one investment house, Smith Barney, Harris Upham, began to dispell the euphoria in the financial community about metals by pointing out that even the relatively modest hike in prices of the first two months of this year registers as a major factor behind U.S. double-digit inflation figures.

Obviously concerned that an uncontrolled price takeoff could trigger an early breakdown in metals purchasing, and result in an all-too-sudden collapse of commodity prices, Smith Barney recommends to speculators a "safe" copper price of \$1.00 per pound in 1980, much lower than the \$1.20-1.50 predicted by the financial press.

— Renée Sigerson

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## BANKING

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### American banks awake

"We have to begin asking ourselves some questions," Richard D. Hill, chairman of the First National Bank of Boston said in a recent speech. "Most other countries do not permit their largest banks to be acquired by foreigners; the U.S. must determine where its national interests lie."

Faced with plans by City of London banks to simply buy up their banking assets — regardless, as with

Mr. Hill, of their Anglophile biases — American banks who slept through or even encouraged London's 1978 sell-off of the U.S. dollar are finally waking up to the national interest — their interests.

Suddenly, protests are blossoming across the U.S. banking community. Irving Trust, the nation's 15th largest bank with deposits of over \$9.5 billion, has

filed with the White House and the House and Senate Banking Committees a study prepared by its research department proposing an outright federal ban on foreign acquisitions of large U.S. banks. Irving Trust, together with the huge Chemical Bank, the nation's fifth largest, are reportedly about to be the first targets of "unfriendly" British bank takeovers.

Federal Reserve Chairman G.W. Miller was questioned closely by reporters at a March 13 press conference as to whether the looseness of the current foreign acquisition laws doesn't in fact encourage unfriendly takeovers. Under pressure from the banks as well, Miller replied that "there is a long row to hoe and an unlikely outcome" for any such unfriendly bid.

Miller refused to comment on the applications already pending by the Hong Kong and Shanghai Bank for Marine Midland, Standard Chartered Bank for Union Bank,

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## CORPORATE STRATEGY

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### Dan River faces Hong Kong takeover bid

Every corporation has that nagging worry that someone with a pile of loose cash will swallow them cheaply. Dan River, the North Carolina-based textile manufacturer with \$565 million in sales, was no exception, but when they found out who had bought 8 percent of their outstanding shares, they must have gulped. Two weeks ago Dan River petitioned the Securities and Exchange Commission to find out who was buying. The SEC said it was Unitex, a Hong Kong textile company with \$27 million in annual sales.

Funding Unitex was Chartered Bank, a subsidiary of Standard Chartered and Wardsley, a wholly owned subsidiary of the Hongkong and Shanghai Banking Corp. Midwifing the deal was Lazard Freres in the U.S.

Wardsley, in joint venture with Sharps Pixley, another British merchant bank, controls the Hong Kong gold market, and hence the drug trade, which means they have excellent connections with the present leadership in Peking.

One U.S. market analyst pooh-poohed the idea that this was simply

another "buying America cheap" move, although two-thirds of foreign buying in the U.S. is Anglo-Dutch, and much perfumed with the fragrance of drug monies. Rather he indicated that Dan River makes a logical target for an asset-stripping raid like the ones Textron used in the late 1940s to strip New England mills. Dan River's textile machinery would then be shipped to Hong Kong or Shanghai. Stripping Dan River — selling stocks and inventories, taking cash — and installing the machinery in mainland China cities at local wage rates could become as large a business as Textron's highly profitable raids. Large-scale mainland sweatshop textile production would then compete heavily with Japanese, Korean and Taiwanese sales, and ultimately the U.S. If this works, North Carolina could look like Massachusetts.

This thesis tends to be confirmed by a proposal just made by the American Chamber of Commerce in



and National Westminster for National Bank of North America. Additionally, the Chicago Fed announced March 13 that Allgemeine Bank Nederland has just applied to purchase the La Salle National Bank.

Allegations by the New York *Journal of Commerce* March 12 that the Fed was about to be forced to rule affirmatively on the HongShang case were angrily refuted by a Fed spokesman. "We're not going to be forced into something like this on a paltry legal technicality," he said, referring to the vague provision of the Federal Reserve Act requiring a ruling 91 days after the Fed accepts an application. "No one is going to tell us when the time is up."

According to the *New York Times* March 12, the entire "American banking industry is discretely mobilizing a defense effort" against foreign takeovers. The Association of Reserve City Bankers, the

national group of the big money center banks, of which Hill is this year's president, has commissioned a study on the subject for presentation to the Federal Reserve. The Association itself is dominated by Anglophile bankers who are waking up; its president-elect is Chairman James Higgins of Mellon Bank, and the Program Committee Chairman who commissioned the takeover study, John B. Madden, is a senior partner in the private bank Brown Brothers, Harriman.

These Anglophile bankers are still pulling their punches. A spokesman for First Boston said on March 14, for example, that in some cases his bank would not oppose purchases of U.S. banks by large foreign banks if large U.S. banks were permitted to gobble up their brothers. They are presently forbidden to do this under antitrust laws. This attitude will likely change as even First Boston sees that it plays directly into Britain's "free market"

hands.

Livid — and for once truthful — about the situation was the March 10 London *Economist*. In "Don't Monkey with Mickey," they ask "Will New York regulators spike HongShang's \$260 million deal for 51 percent of Marine Midland? They have done such things before. In 1973, they squashed Barclays Bank's takeover of the Long Island Trust Company," as *Executive Intelligence Review* reported March 6. "Most of the heavy breathing comes from Miss Muriel (Mickey) Siebert," as the *Economist* insolently characterized the New York State Banking Superintendent. As we also reported, Siebert has demanded a "national policy review" on foreign takeovers.

—Kathy Burdman

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Hong Kong calling for reduced U.S. import duties, to cheapen U.S. imports of Hong Kong and China made apparel. In this variation, U.S. textile mills would not have their assets stripped; the mills would be left in place and Hong Kong sweatshops would be expanded into the mainland.

While Dan River has recognized its peril, has filed suit against Unitex for securities violations, and is hostile to tender offers, it has hired a top, British-intelligence-linked New York law firm, Paul, Weiss, Rifkind, Wharton and Garrison, to fight Lazard. Since Paul Weiss has long-standing intimate contacts with Lazard, and is one of the handful of law firms that Lazard uses on a current basis, this is something like hiring Beelzebub to fight Mammon.

—Leif Johnson

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## KEEPING TABS ON THE ECONOMIST

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### Still lying about the EMS

#### The Economist

Central banks, as part of their reserves "also hold gold, but the world has made strenuous and nearly successful efforts to demonetize this commodity...."

"...The big hope from nuclear power technology is fusion. This is unlikely to be available till well into the next century."

#### The facts

The new European Monetary System, officially adopted on March 13, has effectively remonetized gold.

We double checked our estimates of the commercial feasibility of nuclear fusion with the Fusion Energy Foundation. They report that breakeven commercial fusion could be on line in 11 years if a crash development program is launched.

# An EMS-OPEC partnership?

*Both sides are studying a link-up on energy questions*

A recent statement by Iraqi Oil Minister Tayih 'Abd al-Karim on the current supply and pricing disruption of world oil markets sheds some light on the policy stance being taken by members of the Organization of Petroleum Exporting Countries (OPEC). The policy question deals with cooperation between the cartel and the governments of the oil-consuming nations to establish a global energy policy.

Karim targeted the international oil industry as a key feature of the "inequities" in the current economic system. Underlying Karim's statement is what appears to be a determined collaborative effort between the members of the European Monetary System (EMS) and moderate elements within OPEC, notably Saudi Arabia and Iraq, to take control of world oil markets out of the hands of a few powerful oil companies and traders. For both the EMS founding partners — West Germany and France — and their allies in OPEC, petroleum must power a new generation of large-scale economic growth, and must not be used as a tool of economic warfare or quick profit.

The recent pricing spiral has been attributed by numerous public sources, including the head of the International Energy Agency as the work of Royal Dutch Shell and British Petroleum. In turn, the secretive cartel arrangement between these two companies and the five largest U.S. multinationals has prompted a complex arrangement whereby these U.S. companies are now sharing the shortfall which BP and Shell were hit with as a result of the Iranian oil nationalization. This has led to artificial global shortages and higher prices.

A number of prominent OPEC figures have resoundingly condemned this action by the so-called Seven Sisters as profiteering with OPEC oil and taking advantage of the tight supply of oil prompted by the Dec. 26 shutdown of Iran's export.

Within the cartel there are two tendencies vying to shape future OPEC pricing and production policy. On the one hand, there are the producers who want to take short-term advantage of the current tight market situation for monetary gain and to launch a militant policy to push the official OPEC price higher. Such a policy stance will play directly into efforts by London and U.S.

Energy Secretary James Schlesinger to force energy prices up and impose a no-growth economic perspective on the U.S. and the other advanced sector nations. On the other hand, a grouping around the Saudis is working to use oil and the petrodollar to back up the EMS as the germ of a new world economic order.

## **Behind the press propaganda**

Underlying daily television and newspaper reports of increasing oil prices and looming rationing measures is a new orientation toward OPEC's current pricing and production actions. If this orientation were known, Schlesinger's energy austerity drive would be destroyed.

Inside sources in the oil industry indicate that numerous OPEC producers are moving toward selling increasing amounts of their oil on a direct government-to-government basis, bypassing the large oil companies. The aggressiveness with which the National Iranian Oil Company moves to conclude contracts on direct oil sales is seen as a vector for the entire cartel. On March 5, the anniversary of the death of Mohammed Mossadegh, the former premier who first nationalized Iran's oil away from BP, the first cargo of Iranian crude since the change in government left the docks. A few days later NIOC signed long-term contracts to supply 400,000 barrels a day of oil to Japan.

New York sources privately consider reports of a reduction of production by Algeria, Indonesia, and Libya to be misleading. What is suspected to be the case is that these producers are cancelling contracts to oil companies and redirecting their oil to purchasers on a state-to-state basis. That type of action brings into question whether the various pricing surcharges which a number of producing nations have attached to their crude sales are not geared to hitting the oil companies solely. A Washington source confirmed that the Saudis are not attaching any additional charge to oil sold through the state-owned company Petromin to the Third World.

## **Long-term producer-consumer cooperation**

The first Arab Energy Conference concluded last week and with it came a strong commitment on the part of the

producers to halt speculation and market manipulation by elements within the oil industry. At the meeting, two members of the newly formed OPEC Long Range Planning Committee presented papers calling for a complete revision of OPEC's pricing and production policy. The proposals of the committee, which were the result of months of planning overseen by Saudi Oil Minister Sheikh Zaki Yamani, called for a long-term pricing and production schedule for the cartel. Such an orientation demands close collaboration with the consuming nations, which is precisely what Yamani and his allies in France and West Germany are working toward.

In this connection, the European Community heads of state summit in Paris concluded this week with a communiqué endorsing the Saudi call for an oil exporting nations importing nations conference. Riyadh views such a conference as a continuation of the Conference on International Economic Cooperation (North-South) linking the energy issue to raw materials and the development of the Third World. the *Petroleum Intelligence Weekly*, reported March 12 that both government and private agencies within the oil-producing sector and the European Community are carefully studying a long-term, producer-consumer link on energy questions.

A critical element in such deliberations is the production of alternative energy — most emphatically nuclear energy — to replace petroleum in the coming years, thus enabling the OPEC nations to use their crude as an industrial base for petrochemicals.

To date, very few of the OPEC producers have taken an aggressive public stand favoring nuclear energy as the only viable replacement for oil in power generation. Earlier this month, however, Libyan President Muammar Qaddafi broke the silence on this issue. In an interview with *Al Kifa al Arabi*, Qaddafi stated: "The whole world is looking for an alternative to petroleum which is found in the atom. I believe that striving for this alternative is legal and the whole world (should) do the same. I should think that the right to possess science and progress cannot be objected to."

— Judith Wyer

## Iraq Oil Minister: cooperate to promote prosperity

*Iraqi Oil Minister Tayih 'Abd al-Karim, in a statement to the Iraq News Service on Feb. 27 excerpted below, discussed the current world oil situation.*

The circumstances facing the international oil industry at present make one recall what happened in 1973, although the direct causes of the developments which took place in 1973 are different from today's. Nevertheless, the crux of the problem is the same as it was five years ago. Iraq then officially announced its stand and views regarding the conditions of the international markets on the basis of its historic and objective outlook regarding the unequal relations between the industrial and developing countries, including the oil-producing countries.

The crux of the problem was and still is the loopholes in the international economic system, which it inherited from the imperialist system, and the failure of this economic system to respond to international political developments, particularly the struggle by the Third World peoples to achieve political independence and freedom from economic subservience. Furthermore, the international economic system allowed the monopolies to make enormous profits at the expense of the producers and consumers....

Iraq called in 1973 for the need to work to place economic relations between the oil producing and oil-consuming countries on a fair and equitable basis so as to guarantee the stability and sound development of these relations and achieve the legitimate and equitable interests of everyone....

This cannot be achieved without providing the necessary and essential conditions, the most important of which is respect for the rights of people to independence and freedom from economic subservience as well as their right to develop their oil and other natural resources so as to promote their development and progress and to simultaneously contribute to achieving prosperity for all mankind. There is also the need to review the international distribution system in such a way that will guarantee for the developing countries their right to exercise full sovereignty over their natural resources and to receive fair prices for their exports of oil and other raw materials.

# Phase II: attack on U.S. oil production

While the world around it is seeking other sources of energy and expanding their contacts with the world's oil producers to increase their supply of energy, the United States is moving to impose mandatory energy reductions, possible gas rationing, and controls on industrial energy usage. Such draconian measures are not justified by the loss of Iran's 5 million barrels per day of oil, as Energy Secretary Schlesinger had hoped. Even more problematic for Schlesinger is that the "oil shortage" is rapidly evaporating as Iranian oil production comes back on line. Nonetheless, the Carter Administration is going full steam ahead to implement Phase II of its "energy program." Most ominous is the threat of terrorist attacks against Saudi Arabian oil installations, as one top aide to Senator Edward Kennedy "predicted" in an interview this week.

Testifying before Congress this week, Schlesinger stated flatly that the "voluntary" conservation pleas of Phase I have not worked. Senate Energy Committee Chairman Henry Jackson — "the Zionist candidate for President in 1976" — has called on President Carter to impose now his "moral equivalent of war" on energy, particularly now that he has secured a Middle East "peace" package to militarize the region and set the stage for "desperate acts," as one State Department source put it.

What Schlesinger, et al. need to impose mandatory conservation measures is a crisis — or at least the aura of one. He's getting some assistance from the Nuclear Regulatory Commission which has just ordered the closing of five operating nuclear power reactors in the oil import-dependent East Coast. The reason given was a possible defect in piping design standards. The impact is that those utilities will be forced to switch to burning an additional 200,000 barrels of oil a day for "some months" to maintain power to their 13 million customers.

## Phase II

Schlesinger is coordinating with Treasury Undersecretary Richard Cooper to impose a million barrel per day net energy reduction — following the guidelines of their Paris International Energy Agency proposal. The

federal offices of Schlesinger and Blumenthal are orienting their policies toward the imposition of major price hikes via gasoline decontrol, regulatory rulings, and oil import tariffs.

In parallel, a series of bills are being introduced into the legislative process. Their backers openly advocate the "bust OPEC" scenario. These bills will be pushed once a crisis in international oil supply is sufficiently alarming to make a convincing case for the fascist restructuring of the economy.

Consider "The Oil Import Purchasing Authority Act of 1979," introduced by Representative from New York Jonathan Bingham, an ally of the Kennedy camp. Bingham's office has stated that it is not the Congressman's intent to vigorously push the bill at the present time, but merely to get it into the hopper well in advance. The bill would make the U.S. government — through Schlesinger's Department of Energy — the "sole purchasing agent for all petroleum and petroleum products into the United States."

Last month, Bingham stressed in Congress that his bill would force OPEC and non-OPEC oil producers to submit competitive bids which would "have a divisive impact on the OPEC cartel." The legislation is clearly intended to break the links between the oil companies and the OPEC countries, such as Saudi Arabia. Said Bingham: "Clearly the oil companies have interests which conflict with those of the United States."

Interviewed by *Executive Intelligence Review* this week, a staffer on Ted Kennedy's Senate Judiciary Committee spouted the same line about a government monopoly to control oil imports and the need to divest oil companies of their marketing, refining and distribution capacities. "Everyone knows it is the large oil companies that hold OPEC together," he said.

Kennedy, it should be noted, is one of the more prominent backers of a legislative drive to reform antitrust legislation that would impact the entire spectrum of U.S. business and industry.

The backers of "bust OPEC" legislation admit that congressional sentiment is not in their favor. They can count among their numbers only Jackson, Frank Church, Kennedy, Bingham, and a handful of others. But they are working overtime to make their case.

In a recent exchange, Senator Jackson queried Secretary Schlesinger: "What would the consequences be if an oil tanker were sunk in the Gulf of Hornuz?" Said Schlesinger: "It would be the end of the free world as we know it."

— William Engdahl

# Peace in our time?

## *Carter's pact lays basis for new Mideast military machine*

Six months ago the *Executive Intelligence Review* likened the Carter Administration's Camp David quest for a separate peace between Egypt and Israel to Neville Chamberlain's 1939 Munich pact with Adolf Hitler. Events surrounding Carter's surprising, final securing of that peace on his Middle East trip last week are proving that prediction frighteningly true.

While publicity has centered on the peace treaty between Egypt and Israel, the fact is, just as Chamberlain's goal at Munich was securing not peace but the possibility for Hitler to wage war against Soviet Russia, so the strategy underlying the Carter Administration's peace pact is the creation of a new Middle East military alliance, whose goal is muscling Soviet influence and friends out of the Middle East.

This publication warned of the Carter Middle East strategy two weeks ago, in highlighting threats by Energy Secretary James Schlesinger and others to invade Saudi Arabia if necessary to protect oil supplies. In a March 14 column entitled "U.S. to Soviet: We'll Fight for Arab Oil," New York Daily News columnist James Wieghart quotes a high U.S. official as gloating in the wake of the signing that "together, the battle-hardened, well-trained and well-equipped forces of Egypt and Israel could stand off any combination of opponents that can be arrayed against them in the Middle East. And with the support of the United States, the two are protected from any direct attack by the Soviets."

Already, Sadat's abandonment of the West Bank Palestinians is giving added maneuvering room to the expansionists within Israel, a development underscored by the Israeli incursions into Lebanon which continued throughout the final negotiations, as well as by Israeli military moves on the West Bank itself.

Moreover, the peace pact is being accompanied by renewed predictions of terrorism against Arab oil production facilities, which could provide the pretext for Energy Secretary Schlesinger's predicted U.S. military move into the Gulf region.

One variant of this scenario appeared March 14, when New York Times columnist Leonard Silk predicted a drastic energy crisis in the United States stemming from Arab opposition to the Egypt-Israeli pact.

It is the indications that Washington hopes to use the

peace treaty as the lever for a showdown with the Soviets that are the most ominous, however. Wieghart quotes one high-level official as saying that "there is no question about it, the President has made a decision to protect Saudi Arabian and Persian Gulf oil supplies at whatever cost.

Indeed, the true intent of Carter's peace mission was made clear the night he departed. The President at that time decided to flood unwilling North Yemen and Saudi Arabia with arms and sophisticated military hardware to "prevent" the border war between the two Yemens from burgeoning into full-blown crisis. Significantly, the Saudis feel that the U.S. jumped the gun, and have informed the U.S. that they favored a more cautious approach to resolving the situation, according to statements reported in the French press last week. The North Yemens were much more outspoken, accusing the U.S. of warmongering (see grid, p. 30).

In contrast to the U.S. attitude toward the Yemen conflict, the Arab League quickly moved to mediate the situation. As a result, the quarreling North and South Yemens have agreed to reopen telephone communication and air traffic between the two countries, as well as to reopen the borders by March 26. In commenting on the situation, Arab League General Secretary Mahmoud Riad said: "We have achieved good results in efforts to end the fighting."

But the Carter Administration has not been deterred from continuing to aggravate the crisis. Three hundred military advisors have been dispatched to North Yemen, while Pentagon plans to establish a "fifth fleet" in the Indian Ocean are becoming a topic of international debate. Soviet Foreign Minister Kosygin, has criticized the scheme as well as the presence of the U.S. aircraft carrier Constellation in the area.

### **Peace talks fuel Lebanon crisis**

While Israeli Prime Minister Begin was hosting an official dinner for the visiting Carter entourage, the Israeli military moved into Lebanon and began preemptive crackdowns on the West Bank. During the final round of the ritual peace negotiations, jets buzzed over North Lebanon shelling cities in the south. Fanatical Israeli

West Bank settlers fired warning shots at groups protesting the Carter visit.

The increased Israeli activity in Lebanon could indicate an imminent Israeli move to annex the area, some analysts have said, as the first phase of their new U.S.-backed policeman's role. Qatar's news agency reports substantial Israeli troop build-up in the southeastern sector and upgraded coordination with the militias of right-wing extremist Major Haddad in the area. The Israeli press has gone so far as to announce that the Israeli government has offered to pay the salaries of Haddad's soldiers since they have begun to be cut off by the Lebanese government. The Iraqi news agency predicts a major confrontation between rightist forces in the north and the United Nations and Syrian peacekeeping troops before April.

Israel's escalations appears to have been timed to coincide with the heating up of the Yemen crisis. The Syrians have charged that the United States, "resorting to the experience of Britain," has been ultimately responsible for the actions in an effort to revive the Lebanon partition scenario, the same scheme that was neatly defused by Saudi, French, and Soviet diplomacy last year. This indicates intensified blackmail pressure on, especially, the Jordanians and Saudis as the Zionists move to extend the U.S. and British umbrella of protection.

These recent military actions gain fresh significance

from the fact of a direct U.S. military cover for Israel and the current position in which Egypt's Anwar Sadat finds himself. In view of Carter Administration threats to "fight the Soviets" for Mideast oil, a move by the Egyptian army into Libya is by no means far-fetched.

The British planners know that Libya is the weak link in the otherwise solid axis between the Organization of Petroleum Exporting Countries and the European Monetary System and will undoubtedly seek to take advantage of this. The architect of the Egyptian end of the Camp David agreements from the military side has been Sadat's special advisor Tuhami. Tuhami was the military command officer who ran the 1977 Egyptian "punitive" invasion of Libya.

Domestic analysts say that the British strategy is to bring the entire region to flames. Last week Khomeini-supported insurgents attacked cities in Afghanistan with tacit Pakistani support; the Yemen crisis remains a focal point for manipulation in the Gulf; an Egyptian move into Libya would bring Sudan and Morocco into line behind Sadat, while Israeli intelligence continues to beef up its activities in the Horn of Africa, Nigeria and throughout the African continent. Myopic U.S. puppets may think they are getting "American presence" in Africa and the Mideast. What they are really getting, however, is a new 30 years war.

— Henry Moss and Nancy Parsons

## Do the Arabs really want U.S. troops?

*The answers to that question differ widely. Here are some of the responses:*

New York Daily News, "U.S. to Soviet: We'll fight to save Arab oil link," by James Wieghart, March 14 (quoting a U.S. official):

The line was drawn at Yemen because that's where the Saudis felt it must be drawn. The naval task force, the arms shipments and the military advisers to North Yemen were all decisions that were made at the request of Saudi Arabia....

*Former Secretary of State Henry Kissinger, on NBC television March 13:*

It has to be demonstrated that friendship with the U.S. confers security.... (After an Egyptian-Israeli treaty is signed) there is no doubt we will be heavily engaged in the Middle East.... Saudi Arabia will be relieved, but probably will not say so, and the same is true probably of Jordan....

*Muhammad Salem Basendewa, Information Minister of North Yemen, in an interview with the Kuwaiti News Agency (KUNA) March 1:*

His country is not seeking protection in the arms of either East or West.... His country, he added, will not allow the U.S. or other countries to intervene.... He explained that if America has announced the sale of arms to North Yemen then the agreement on these arms is an old one. He added that the U.S. statements at this time are but another attempt to escalate the situation.... He said that Samaa still regarded the USSR as a friendly state and is anxious to maintain friendship with it.... He denied that there were any U.S. military experts in the northern part (i.e. in North Yemen — ed.) and he confirmed the presence of Soviet military experts."



# 'Kennedy for President' movement gets underway

A nationally coordinated movement to garner the 1980 Democratic Party presidential nomination for Senator Edward Kennedy has gone into full gear with the emergence of a highly vocal "Dump Carter" movement — dominated by leading Zionist lobby political operatives — in several key primary states.

The kick-off event for Kennedy's still "unofficial" challenge to Carter was a dinner staged in Los Angeles March 1 to protest the president's policies in general, and his scheduled appearance at a Democratic Party fundraising affair in the city the following evening in particular.

The dinner, attended by some 300 people ranging from veterans of the 1968 "Dump Johnson" campaign to such promoters of a showdown in the Middle East as guest speaker Gen. George Keegan, USAF (ret.), had been pulled together by Philip Blazer, publisher of *Israel Today* magazine, and two long-time financial backers of the left-liberal wing of the Democratic Party, Harold Willens and Stanley Sheinbaum.

Dubbing themselves "Democrats for Change," the anti-Carter organizers also took out full-page advertisements in the two principal Los Angeles dailies to air their complaints with the current Administration. The ads called specifically for a "new leader" to replace Carter as the Democrats' standard-bearer. It was signed by more than 200 individuals, drawn mainly from the entertainment industry. Among them were pornography czar Hugh Hefner, movie actress Jane Fonda (married to aging radical activist Tom Hayden), and TV producer Norman Lear.

Just who Democrats for Change want as the "new leader" of their party requires little guesswork. Despite the presence of Pat Brown, father of California governor and presidential hopeful Jerry Brown, at the protest dinner, the tenor of Democrats for Change is emphatically pro-Kennedy.

## **Kennedyites rev up in Iowa, New York**

Similar anti-Carter, pro-Kennedy groups are emerging simultaneously in other parts of the country. Just a few days prior to the Los Angeles "counter dinner," two New York Democrats with long-standing ties to the Kennedy camp publicly called for a Democratic insurgency to deny Carter renomination. Manhattan Borough President Andrew Stein issued a statement

Feb. 23 denouncing Carter not only for his mishandling of domestic economic policy — the current liberal war-cry — but for his "lack of nerve" and "vacillation" in dealing with the alleged "Soviet threat to Israel and the Mideast." The statement also urged that Ted Kennedy be drafted as the party's presidential nominee, with Jerry Brown as "second choice" should Kennedy decline. A spokesman for Stein — whose father, *New York Law Review* publisher Jerry Finkelstein, travels in top Israeli lobby circles — told this news service why his boss is pushing the Massachusetts Senator's candidacy so strongly: "Kennedy won't let us get pushed around by the Soviets and all those little countries. And he won't lean on Israel the way Carter has."

Stein is coordinating his Kennedy boomlet with former City Council President Paul O'Dwyer. In an interview with the *New York Times* Feb. 23, O'Dwyer — perhaps best known as one of the earliest supporters of Eugene McCarthy's candidacy in the 1968 movement, and for his gun-running to the Irgun and Irish Republican Army terrorists, as well as for his outspoken advocacy of bringing the British model of "heroin maintenance" to New York City — disclosed that he is in the process of rallying his old colleagues from the "Dump Johnson" movement to give Carter the same treatment. While coyly denying that his efforts in this regard are intended to bolster the political fortunes of any particular candidate, O'Dwyer admits privately that he definitely favors Kennedy. O'Dwyer plans to formalize his operations at a press conference next week.

In Iowa, where the first voting in the 1980 election process occurs with the party caucuses next Jan. 21, a group of "left-liberal" unions have banded together to elect Kennedy delegates to the 1980 convention in the upcoming, psychologically crucial vote. The unions involved include the International Association of Machinists, the United Auto Workers, the Communications Workers of America, the American Federation of State, County and Municipal Employees among others — i.e., the same ones that joined up behind UAW president Doug Fraser's call for "class warfare" in October 1978. This coalition will meet in Des Moines March 31 to map out strategy. The Machinists' Bill Tenton, who is one of the prime movers behind the March 31 meeting, ironically was key in organizing Iowa for Carter in 1976.

— Kathleen M. Murphy

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# New DITI — same old song

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## **Trade Department won't alter resource control policy**

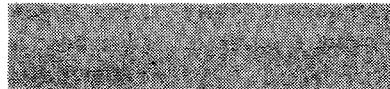
Senators Abraham Ribicoff (D-Cn.) and William Roth (R-Del.) have introduced legislation to reorganize existing federal functions performed by the Commerce Department, Treasury Department, International Trade Commission, State Department, National Security Council staff, Special Trade Negotiator, U.S. Export-Import Bank, and U.S. Customs Service in a single Department of International Trade and Investment (DITI). The bill is the result of Office of Management and Budget reorganization studies.

DITI is intended to suggest that the U.S. is undertaking the sort of aggressive government-backed high-technology export policy associated with Japan's Ministry of International Trade and Investment (MITI). It appears far more likely that DITI, if born, will be used to conduct economic warfare against U.S. allies and the developing sector within an environment of overall contraction of world trade.

In early March, Assistant Treasury Secretary C. Fred Bergsten, in a speech in Washington, characterized a subsidies code worked out during the current multilateral trade negotiations in Geneva as the most important product of the GATT agreement which may shortly be concluded. Bergsten was explicit on the point that the U.S. intended to pursue severe economic retribution against developing countries which refuse to accept the code, shutting them out of American markets whether or not

their subsidized exports can be shown to injure American firms.

Bergsten went on to define the prevention of transfer of technology from the U.S. to the developing sector as the new "major objective" of U.S. policy. He cited Mexico as top priority target, and called for "multilateral discipline" against those governments which demand licensing



## **Congressional Calendar**



and/or coproduction agreements for U.S. capital goods imports as part of their trade purchases.

No one so far has heard the DITI bill's sponsors mount a challenge to the Administration's overall antiexport, antitechnology bias. Capitol Hill sources report that they are "uncomfortable" with Senator Adlai Stevenson's (D-Ill.) effort to open wider markets in the Soviet Union, socialist bloc countries, and China through a revision of the Jackson-Vanik amendments.

The DITI bill has been referred to the Senate Finance Committee. Companion legislation will soon be introduced in the House.

## **Banks object to "Fed membership" bill**

Substantially similar legislation has been introduced by Senators

William Proxmire and Rep. Henry Reuss, respectively the chairmen of the Senate and House Banking Committees, purportedly in the interests of reversing the declining membership of the Federal Reserve System. Although Proxmire will continue hearings on S-85 on March 26-28, Rep. Reuss has already postponed markup on the House version of the bill, HR7, indefinitely, because of a "lack of unanimity" on its merits among those testifying. Observers are noting opposition by the American Bankers Association and the Conference of State Banking Supervisors, among others. Federal Reserve Chairman G. William Miller has given the bill his substantial support.

The legislation would require all banks to keep reserves on demand deposits in excess of \$40 million and savings deposits in excess of \$40 million (or \$50 million in the House version). The Federal Reserve would institute a pricing system for its services available to all willing to pay. In turn, all those holding reserves would be entitled to all privileges of Fed membership except stockholding and voting privileges.

According to opponents of the legislation, this is intended to facilitate greater control over the U.S. banking system by the political faction associated with Reuss, Proxmire, and Miller, whose ultimate aim is believed to be the creation of the same kind of speculative "off-shore" banking practices — impeding credit for needed industrial expansion — which dominate the Eurodollar market.

The staffs of the House and Senate committees report that the principal objections to the bill have been articulated primarily in terms of opposition to "mandatory," instead of voluntary, Fed membership/reserve setting; that is, along traditional "free market" lines. There is reason to believe that some in the banking community understand that the legislation has graver implications. According to one such spokesman, "the Fed is in fact trying to force each and every bank in the country under mandatory Fed membership, to break its correspondent banking and clear directly through the Fed. Both the efficient flow of capital in scale and the ability to put together consortia would be seriously hurt by this.... What is particularly frightening is that Miller is running the Fed like a business, with regard only for the profitability and growth of the business, and no regard for the economy as a whole. I'm not against efficiency in government, but the government's prime responsibility is service."

#### **Strategic stockpiling**

Dovetailing with the Administration's efforts to centralize control over strategic raw materials is a bill to revise the Strategic and Critical Materials Stockpiling Act, HR2154. This bill would update the legislation that initially established the stockpiling program, and would consolidate the three separate stockpiling plans now in existence and establish a Trust Fund to take the profits from the sale of any of the stockpile mater-

ial and use it for maintaining the stockpiles.

In the current world market, this stockpiling program could affect commodities markets enough to create an atmosphere in which largescale market manipulation could be carried out.

As an aide to Senator Gary Hart (D-Colo.), the Senate sponsor of the bill, declared: "Senator Proxmire is very interested in the bill because he is interested in the economic implications of it. He is concerned about what it will do to commodities. It might affect prices significantly."

The bill has been submitted to the Senate Armed Services Committee by Hart, and to the House by Congressman Bennett (D-Fla.) Hearings will begin March 19 in the Senate and both committees hope to have the bill enacted into law this session.

#### **Regional self-sufficiency**

A number of bills have been introduced into Congress that are now sitting on the back burner, waiting for an energy emergency. ENCONO, the longstanding proposal for an Energy Corporation of the Northeast has been introduced in the House by Congressmen Stratton (D-N.Y.), Edgar (D-Pa.) and Rodino (D-N.J.) and in the Senate by Henry Jackson (D-Wash.) This bill would establish a supragovernmental regional structure to finance energy conservation programs and expensive, low-yield energy boondoggles, such as large solar energy programs, thus serving more as a bailout for selected investments than an energy

development program. The anti-industrial development intent of the bill is captured in the phrase most mentioned by the backers of the bill: "regional self-sufficiency."

Because states are not legally allowed to collaborate on this scale without Congressional okay, the bill will first have to be passed by Capitol Hill, then by the individual states involved: Pennsylvania, New York, Connecticut, Rhode Island, Massachusetts, Vermont, and New Jersey. The bill has been referred to the House Committees of Banking, Judiciary and Interstate and Foreign Commerce. In the Senate, there is, as yet, no referral, but the bill is expected to be sent to Jackson's Energy and Power Committee.

Another bill is the Oil Import Purchasing Authority Act of 1979. Under its provisions, petroleum imported into the United States after Sept. 1, 1979 would be done only through the Department of Energy. The bill was introduced by Congressman Bingham (D-N.Y.) on Feb. 15 to "help break the OPEC stranglehold." As yet there are no Senate sponsors. In 1975, Congress authorized the President to submit such a plan to Congress. In 1978, a similar bill was introduced and a major fight ensued in the House committee handling it, although it was finally defeated in committee.

— Don Baier

### Teamsters declare war on Carter austerity program

The International Brotherhood of Teamsters last week declared war on the Carter Administration's domestic austerity program. According to sources close to the union, the Teamsters handed trucking industry representatives involved in the master freight contract negotiations demands for a wage and benefit package totaling between 50 and 60 percent over the three year life of the contract. The demands are more than double the 7 percent standard established by Carter and caught both industry and Administration officials off guard.

There was little reason for surprise. As this news service had reported, press reports that the Teamsters were going to compromise their members' standard of living and give in to Carter-industry pressure were based on "wishful thinking" and phony leaks.

Teamster President Frank Fitzsimmons is reportedly furious that the confidential contract demands were leaked to the *Chicago Tribune*, which promptly exaggerated the total package figure. Fitzsimmons views the leak as an attempt to sabotage further negotiations.

The industry now appears intent on forcing a strike when the contract expires March 31. Their spokesman leaked to the press that they will take a long strike. Administration officials, including inflation czar Alfred Kahn, are demanding that the industry not give in and hint government back-up in case of a strike. Energy czar James Schlesinger and his scenario planners are discussing how a Teamster strike could be used to trigger "crisis management" controls on the economy.

The Teamster Executive Board is said to be debating the content of a

major advertising-educational campaign to explain their contract demands to the nation.

Several Teamster leaders are reportedly pushing the Executive Board to adopt a broad based political strategy rather than a simple strike tactic. While a strike may become necessary, these leaders want to take on the entire Carter austerity program and rally the population behind them. They are looking to developments in Europe centering around the founding of the European Monetary System as laying the basis for a dramatic turnaround in the U.S. economy.

Industry and administration officials committed to the austerity program are reportedly nervous that the Teamsters may locate their contract demands within an EMS-generated recovery.

**History lesson:** As the Teamsters prepared for this year's master freight contract battle, they have reminded the members that they are fighting in the tradition of Abraham Lincoln to protect American labor power.

The Central States Conference of the International Brotherhood of Teamsters, which ended Feb. 18 on the occasion of the celebration of Abraham Lincoln's birthday, released a late-January officers' report including the following excerpts from a speech by Lincoln under the title "Abraham Lincoln on Labor":

All that serves labor, serves the nation.

All that harms labor is treason to America.

No line can be drawn between these two.

If a man tells you he loves America, yet hates labor, he is a liar.

If a man tells you he trusts

America, yet fears labor, he is a fool.

There is no America without labor, and to fleece the one is to rob the other.

**Reliving the past:** Cesar Chavez, the head of the United Farmworkers, says that he is thinking about expanding his two-month-old strike against growers in California into a national boycott. Chavez, who was personally trained by the late domestic counterinsurgency expert Saul Alinsky, says that the boycott tactic, employed during the late 1960s and early 1970s could again "rally support" for his union. Chavez's current strike is explicitly directed against high technology agriculture. One of his key demands is that the growers agree to prohibit all new machinery that would displace unskilled farmworkers. Chavez claims that stoop labor is "dignified."

The old boycott provided a labor cover for the deployment of primarily student-terrorist networks into community-based counterinsurgency work. At one point in the 1970s, the boycott organization, then directed against lettuce and grapes, dwarfed the union's own organization. Funds poured in from the same Zionist lobby linked foundations and individuals — like the American Jewish Committee and Detroit-based Max Fisher — that got Chavez started.

But there is more here than meets the eye. The last UFW boycott organization became a "feeder" operation for the Institute for Policy Studies-directed antiwar movement and eventually for the candidacies of Eugene McCarthy and later George McGovern.

Chavez is a supporter of the environmentalist California Governor Gerry Brown and Sen. Edward Kennedy (D-Mass). A UFW boycott organization, which would take several months to get started, could easily be transformed into the organizing corps for either a Brown or Kennedy run for the Presidency in 1980.

Is this what lies behind Chavez's strike strategy?

# Unmasking the Zionist myth

Alfred M. Lilienthal, the long-time crusader against Zionism, has written what truly can be called an encyclopedic work in his *The Zionist Connection*. To most Americans, for whom even the very word "Zionism" is a strange and unfamiliar one, the book is something of an eye-opening tour de force, recounting in incredible detail the extent and nature of Zionist and Israeli influence on American policy.

In almost 900 pages, including over 100 pages of footnotes and index material, in often bitter and sometimes ironic reporting, Dr. Lilienthal systematically demolishes what he calls "Zionist myth-information" to present his case.

But something is missing. Almost dizzying in its mass of compiled information, Dr. Lilienthal's book in fact presents the reader with a major detective problem: he has presented us with the trees; it is up to us to determine the nature of the forest. The empirical *what* of Zionism is there in useful and valuable detail, but the *why* and *how* of Zionism is, unfortunately, sorely lacking.

Dr. Lilienthal is not a newcomer to the question of Zionism. After a brief sojourn in the State Department, he has spent virtually all of the past 30 years fighting Zionist propaganda and political sleight-of-hand, in an almost obsessive — and to some, quixotic — drive to enlighten the American population about the real and urgent danger in the ardently pro-Israeli course that has been followed by every U.S. administration since the founding of Israel (with, of course, the exception of General Eisenhower's presidency).

In that fight, Dr. Lilienthal has been, for the most part, alone and with few friends. A gregarious and delightful man, with a fine knowledge of history, he has nonetheless been a voice crying in the wilderness for several decades. His previous books, such as *What Price Israel?* and *There Goes the Middle East*, have been the target of concerted efforts at suppression and conspiracies of silence. According to very reliable sources, on the eve of the publication of one of his previous works, a hatchetman from the B'nai B'rith Anti-Defamation League — a wholly-owned subsidiary of the

Mossad, Israel's intelligence service — used both blackmail and attempted bribery to stop the publication. His current book has met something of the same reaction.

I have a great deal of sympathy for Dr. Lilienthal's courageous effort. He has been acting, with deliberation, as the conscience of the American Jewish community and the citizenry at large, as a member of a rare breed, the active, humanist anti-Zionist Jew. In so doing, Dr. Lilienthal speaks for the silent majority of American Jews who, were it not for the atmosphere of terror and the sophisticated mass conditioning techniques created by the ADL and the other Zionist organizations, would join his crusade to free Jews of the Zionist cult. Dr. Lilienthal's humanist outlook is stated forthrightly in the dedication to his book:

To Christians, Jews, Muslims, and Non-Believers, living and dead, who have had not only the courage to place their concern for mankind above their allegiance to any group or sect but also the willingness to do battle in behalf of this conviction.

In the introduction to *The Zionist Connection*, Dr. Lilienthal presents the ultimate indictment of Zionism: that it defines the Jew in terms put forward by the anti-Semite:

In doling out incarceration and death while sweeping through conquered Europe, did not the Führer undo the laws of emancipation for which so many Jews had so long struggled, as he decreed: "You are not German, you are a Jew — you are not Frenchman, you are a Jew ..."? Yet these are the identical words that Zionist leaders have been intoning as they have meticulously promoted the ingathering to Israel (Palestine) of Jews from around the globe....

There is no questioning that Dr. Lilienthal's book contains valuable information, references, and anecdotes that, taken together, prove beyond the shadow of a doubt that the Zionist disease has indeed almost fatally infected the American body politic. For anyone

***The Zionist Connection***  
by Alfred M. Lilienthal  
Dodd, Mead, and Co., 1978

interested in either American politics or the Middle East, the work is a useful dictionary of Zionism.

For instance, particularly interesting is his account of the actions of the Vatican during the era of Hitler, where he refutes the frequent Zionist charge that Pope Pius XII collaborated with or ignored Hitler's extermination policy against Europe's Jews. Because Eugenio Pacelli, the future Pius XII, had spent many years in Germany before the war, he was known as the "German pope," and around this and precious little else, the Zionists claimed that the Vatican leader was pro-Nazi. But Lilienthal shows the reality behind the Zionist myth: not only did Pacelli repeatedly denounce the Nazi race policy, but the Vatican actively helped smuggle tens of thousands of Jews out of Europe. Lilienthal quotes French historians to the effect that, by 1942, "over one million Jews, on Vatican directives, were being housed in convents and monasteries throughout Europe." In addition, Lilienthal reports the activity of Vatican secret intelligence agents against the Nazi Reich, including Pacelli's involvement in the aborted military coup against Hitler, an involvement that could have led to a Nazi occupation of Vatican City if it had become known.

In fact, as Dr. Lilienthal points out, it was the Zionist establishment, especially the Jewish Agency, that cooperated with Nazi authorities during the entire period of the Nazi Jew-killing policy, a hideous, almost unspeakably evil historical fact documented in the little-known book *Perfidy*, by Ben Hecht, cited by Lilienthal.

Scattered throughout the book are literally hundreds of interesting bits of information. One in particular is the account of the unsavory association among Joseph Churba, Rabbi Meir Kahane, and General George Keegan. Lilienthal reports that Churba, the fanatic Zionist of U.S. Air Force Intelligence who was sponsored by General Keegan, was a childhood friend of Jewish Defense League-founder Meir Kahane, and that together Churba and Kahane set up Consultant Research Associates and then co-authored a book entitled *The Jewish Stake in Vietnam*, a prowar diatribe.

But it is in the essential method used by Dr. Lilienthal that the chief weakness of the book lies. Nowhere in the book does the author attempt to present a coherent explanation of the origins of Zionism, except to present the standard account that the early Zionists established a tactical alliance with the British which simply served "British self-interest." That same "self-interest," asserts

Lilienthal, caused London to abandon the Zionists in the interests of currying Arab favor.

But what Lilienthal ignores is the overwhelming evidence that, from the very beginning until the present day, the leadership of the Zionist movement — including the government of the State of Israel — has been wedded permanently into alliance with the British oligarchy, the British Secret Intelligence Service, and the Royal Institute of International Affairs, as a deployable "Jewish cult" to serve London's foreign policy aims. In one egregious instance, Dr. Lilienthal even cites favorably the notorious homosexual-fascist British agent T.E. Lawrence ("of Arabia") as condemning the alleged "betrayal" of the Arabs by London — when it was the evil Lawrence who was chiefly responsible for that betrayal!

Such relative naivete is also shown by Dr. Lilienthal in his frequent quotations from Prof. Arnold Toynbee, the British Intelligence chieftain whose responsibility it was in the 1918-1926 period to oversee the deliberate fostering by London of the Arab-Jewish conflict over Palestine. Toynbee made a studied effort during his lifetime to assume a thin "pro-Arab" posture.

Again, during his correct and often shocking indictment of the *New York Times* as a virtual mouthpiece of the Zionist establishment — citing over 40 pages of examples of black-propaganda distortion — Lilienthal incredibly cites the *Washington Post* and the *Christian Science Monitor* as favorable standards of comparison with the *Times*. (The *Post*, as is well known, is run by the notorious Lazard Freres Zionist clique of Andre Meyer and Katherine Meyer Graham, while the *Fabian Monitor* is virtually a direct outlet for British Intelligence, founded in Boston during World War I by a member of the British Round Table!)

Despite his myopia on the question of the British, Dr. Lilienthal's magnum opus is an important work. It sums up the work of a lifetime. On almost every page is revealed Dr. Lilienthal's outrage at the sheer effrontery of the Zionist myth-makers in befogging the American public, combined with his deep and genuine commitment to justice for the Arab Palestinians. He manages to make his work read not like mere propaganda — as, unfortunately, is so much of Arab publication on this issue — but like the result of the personal crusade for truth that it is.

— by Robert Dreyfuss

# A dialogue with Mexico's press

*LaRouche defines what U.S. policy toward Mexico must be*

*In Mexico City on March 7, 1979 U.S. presidential candidate Lyndon H. LaRouche, Jr. delivered a statement to representatives of that city's major news media. LaRouche was in Mexico heading a delegation of the U.S. Labor Party which was officially invited to attend the 50th anniversary celebration of Mexico's ruling PRI (Partido Revolucionario Institucional) party, March 4.*

*The U.S. leader presented to the press his program for reversing the collapse of U.S.-Mexican relations and for using the Lopez Portillo government's program of high-technology development as the model for Third World development under the new European Monetary System.*

*Said LaRouche: "I am engaged in a struggle within the U.S. to prevent the U.S. from following a policy which would mean war, general thermonuclear war.... The choice of the world today is between the new world economic order or apocalypse.... That the war danger will continue until, first, the new world economic order is coming into being, and second, until the policies of the U.S. are brought into conformity with the new world economic order, these are certainties.*

*"... It was important to me to take this opportunity to be in Mexico at this time, because although the government of Mexico is not a power by the ordinary standard of world powers, it is, at this moment, one of the most important moral forces in the world, and it is, at this moment, one of the leading forces of the new world economic order on behalf of the developing nations."*

*We reprint below the text of the questions asked by Mexico's press and Mr. LaRouche's answers.*

## **The questions and LaRouche's answers**

**Q:** *Would you define or analyze Carter's policy toward Mexico?*

**A:** Carter's policy toward Mexico is a deception, it's a fraud. If you want to know what Carter's policy toward Mexico is — he himself doesn't know — you have to know Paddock's book and the works of George Ball. The policy of Paddock and Ball is that there are 20 million too many Mexicans. And the policy of the Carter Administration, as now presented, is merely the introductory phase of the overall policy. The policy of

Brzezinski and other Carter advisors is a crime against humanity. It is a policy of genocide.

**Q:** *How are they implementing this policy?*

**A:** First, the Carter Administration and Kissinger, because there is no real difference between him and the Carter Administration, will attempt to force Mexico to capitulate by terroristic methods at the same time they will attempt to break the will of France and the BRD. They will try to set up an Iran-type destabilization here, which has already been in preparation for six months. Watch the Margaret Mead kind of anthropologist here in Mexico. These will be the people who will try to create cults among Indians and peasants and who will line up with other destabilizing forces to create a crisis in Mexico.

The planning will come from places like Chicago University, the London Tavistock Institute. The other institution that must be identified is the Aspen Institute, which was key in the destabilization of Iran. The other institution that will be key is the Mont Pelerin Society. There will be no real difference between the right-wing destabilizers and the left-wing destabilizers. One child is called "right," the other is called "left," but they have the same mother.

Although there are various ways through which Mexico will defend itself, it is the mobilization of the consciousness of the people in any country against this which is the ultimate necessary weapon. And Mexico — we know — is not Iran. But the ultimate answer is that if President of France Giscard d'Estaing and West German Chancellor Helmut Schmidt have the courage that I demand of them, then Mexico will not be victimized. And let me emphasize, I personally demand of them and I shall continue to personally demand of them as persons. I am not a diplomat. I am not a college professor. I am a fighting politician. The fate of humanity is at stake and I will do anything to save humanity.

**Q:** *Would you give us a panorama of the power of the Labor Party among U.S. electorate?*

**A:** According to statistical sampling, the standard



statistical sampling used for poll projections and electoral results by the TV stations and so forth in the U.S., I received over 3 million votes in the last 1976 election and that success and the effects of that campaign have resulted in a qualitative expansion of our influence.

We are presently negotiating not only with the top trade union leaderships for the support of my candidacy for 1980, but we are also negotiating with forces within the Republican and Democratic parties to break out of those parties and join me. If there is no war, I can assure you, the Democratic and Republican parties in their present form and hegemony will cease to exist in the U.S. during 1980.

I will give you one indication. We are putting on half-hour TV broadcasts in various regions of the United States, which I recorded about a week ago. After one of those half-hours, the TV station asked us to buy time and run it again at a reduced price. The reason given by the TV managers was the tremendous success gained for the TV station's ratings.

**Q:** *Do you consider the PRI to be a workers' party?*

**A:** Well, I am not qualified to talk about the internal structure of the PRI. What I am concerned about when I look at the PRI are people like President López Portillo and people around him. A party which can produce Presidents like López Portillo — and as long as it continues to produce the continuity of such leaders — I can

say with certainty that such a party is acting in the most vital interests of Mexico and the world and, therefore, of labor in Mexico. Of course, politics is more complicated and other parties help this process.

**Q:** *What would be the programmatic platform toward Mexico of a White House presided over by Mr. LaRouche, taking into account the well-known Carter policy of making Mexico into a strategic reserve of the U.S.?*

**A:** It is very simple what has to be done. What we need is a new world monetary system which has to be the EMS, because to talk about a different monetary system would be abstract speculation. The new monetary system, in the intent of the conspirators behind it with whom I discussed these matters directly or indirectly, is based on the same principle. The international monetary system to be created must function under the constitutional principle of aiding the development of the productive powers of labor in every country and no other principle.

My job in the White House is to remove those unwholesome and evil historical and geographical conditions which prevent Mexico from playing a key role within such a new world monetary system. And as I understand, the policies of the government of Mexico, what they propose to undertake, agree precisely with that. What I would propose to offer to Mexico, I could not discuss in a more detailed way without discussing it

## The Mexican press covers LaRouche

On March 7 and 8, Mexico City accorded major press coverage to the press conference given by U.S. Labor Party Chairman Lyndon H. LaRouche, Jr., an announced candidate for the U.S. presidency in 1980.

Five Mexico City dailies and one television station prominently reported LaRouche's statements. Fourteen media, including three television stations, attended the press conference held at Mexico City's Hotel Reforma on March 7.

We present below the coverage of the Mexico City daily *Excelsior* on March 8. In addition, the March 7 evening edition of *El Universal Grafico* headlined its genocide and is dictated to him by his advisors Pressures and Blackmails Mexico, Says Lyndon LaRouche, U.S. Presidential Precandidate." The March 8 edition of *El Universal* ran a front-page picture and page 11 coverage of the press conference.

The daily *Avance* captioned its picture of the press conference with: "USLP Chairman Lyndon LaRouche's policy for Mexico is technology transfer." And the conservative daily *El Heraldo* quoted LaRouche: "I have every intention of reaching the White House."

### **Excelsior on LaRouche**

The policy of James Carter toward Mexico is one of genocide and is dictated to him by his advisors. Through terrorism and by making Mexico's allies, France and Germany, capitulate, the U.S. hopes to dominate this country, said Lyndon LaRouche, candidate for the government of the United States for the Labor Party.

LaRouche represents "the third party with the most electoral strength" in the United States, that is, after the Democrats and the Republicans. We are on the verge of a new war, he said, and the danger will continue until a new international order is imposed and my country changes its policy.

This visit to Mexico, added LaRouche, is very important for us because (Mexico) is a moral power and

with the government of Mexico, because it would be a matter of reaching agreements.

**Q:** *If you were in the White House what would you do about the problem of the undocumented?*

**A:** First of all, the undocumented workers thing is another case of a cynical and immoral act by the Carter Administration. That there is no reason for the government of the United States to abuse the government of Mexico over the question of the undocumented workers, that is not a problem. The only thing the White House should discuss with the government of Mexico about the undocumented workers is how to regularize this and how to give these workers protection within the United States.

**Q:** *Mr. LaRouche, do you think that Carter continues to be popular in the United States?*

**A:** The Carter popularity has lost 20 percent of the vote and his foreign policy is considered as a disaster among the population.

**Q:** *If that is the way things are, do you think that there are inside the Republican and Democratic parties leaders qualified to be President of the United States?*

**A:** None of the present candidates of the Republican and Democratic parties are worth buying a dog license for. They have essentially the same policies as Carter.

The flavor is different, but the substance is the same.

**Q:** *Can the Carter visit be considered a triumph or a failure?*

**A:** It was considered a disgusting affair and a disaster on Carter's part. The Americans who knew of President López Portillo's conduct said: Why can't the United States have a President like López Portillo? The President of Mexico got tremendous respect for that.

**Q:** *Does that mean that Carter has lost any chance of being reelected?*

**A:** Definitely. The New York Council on Foreign Relations wants to run two gangs, one of the Republican Party, the other of the Democratic Party. In the end, Kennedy is supposed to be nominated by the Democratic Party and lose the election, Alexander Haig is supposed to be nominated for the Republican Party and win the election.

**Q:** *Do you think that Mr. James Schlesinger is a strategist qualified to direct the energy policy of the U.S.?*

**A:** From a military strategy point, James Schlesinger is not qualified to pick up cigarette butts in an Army depot. His energy policy, both for the U.S. and the world, will send us back to the Dark Ages.

a vanguard country in the fight for peace and a new international economic order.

LaRouche explained: the policies of the Carter government are against Mexico and, "I do not speak as a dissident of the United States, but as a political leader of a party that follows in the tradition of the American Revolution. Carter fools and deceives Mexico and is influenced by Paddock, for whom 20 million Mexicans are excess and who wants to eliminate them."

Asked how his country plans to carry out its attacks against our country, he indicated: "With techniques like those used in Iran. Besides, the anthropologists are going to be assigned to create cults and fanaticism among the indigenous populations of this nation.

"There are institutions dedicated to destabilizing countries and only the popular conscience can confront them. Further, we understand that Mexico is not Iran and counts on the solidarity of European leaders like Giscard d'Estaing and Helmut Schmidt with a large dose of courage."

Then (LaRouche) explained the necessity of

creating a new international monetary system in which the European system will participate the most and which will be based on the principles of Alexander Hamilton. The new system should have as its foundation the development of the labor forces of all nations.

The case of the undocumented workers, he continued, is another example of the cynicism and immorality of the Carter government. It should not be blackmailing Mexico with this supposed "problem." "The process of immigration in the United States we ourselves determine by the rhythm of agricultural expansion on the border frontiers. Without the undocumented workers, we would have a shortage of qualified workers," explained LaRouche.

He dealt with other concepts like: "The Common Market proposed by the United States, for the development of Canada and Mexico, is the most imperialist proposal given by my country and forged by the British and the Canadians. The United States is a dumb giant on the leash of these two countries, dedicated to distressing the entire world," concluded Lyndon LaRouche.

# Perez's legacy in Venezuela

## *Nation-building policies are deeply embedded*

Newly elected Venezuelan President Luis Herrera Campins used his inaugural address on March 12 to announce his intention of halting Venezuela's ambitious drive towards full industrialization. "I receive a Venezuela that is mortgaged with debts and distorted by inflationary pressures," Herrera complained. "Mine will be a government of sobriety, austerity, and work." The "easy enrichment" and "bureaucratic corruption" of the outgoing administration of Carlos Andres Perez, he added, will be replaced by a plan to "reduce the balance of payments deficit, renegotiate the public debt, and instill discipline in public spending."

A pleased *New York Times* article the following day translated the jargon into expected results: this means the end of President Perez's development strategy, "which invested oil income in huge industrial projects and agricultural development while applying price controls to consumer goods and subsidizing food consumption."

But the incoming Herrera administration, despite the *Times's* friendly forecasts, will not have an easy time of it. They will have to stop not only the *ideas* of the Perez government, as exemplified by the Fifth Plan of the Nation; they will have to stop its *realization* — a functional industrialization process which has already spun off an 11 percent industrial growth rate, a doubling of aluminum production in the last two years, the generation of a million new jobs since 1974, and agricultural growth rates of 5 percent per annum over the last five years. In short, Venezuela's Fifth Plan, the guiding policy document of the Perez administration, is no longer just a project or an intention; it is today a reality. And it is rapidly becoming a model for the Third World generally.

This is the strong sense gained by this reporter during a recent trip to Venezuela. There is an unmistakable, dominant mood in that country of *nation-building*, of national purpose and pride, which has begun to take root in Venezuela's 13 million people. When consulted, business leaders, government officials,

politicians, and even the proverbial man on the street know that their economy is booming, that new construction is going up everywhere, and that their oil wealth — to use a phrase famous in Venezuela — has been "sown" in order to reap industry.

There is of course no shortage of popular complaints about excessive government bureaucracy, about inefficiency and waste, and about the numerous growing pains that inevitably beset a boom economy like Venezuela's. But the sheer scope of the successful industrialization carried out under the Perez administration's direction, as documented in an earlier issue of the EIR (see Vol. VI, No. 1) and summarized in the charts below, is a fact that the new Herrera government will have trouble talking away.

In fact, if Perez' Fifth Plan is to be stopped, a far more serious showdown will be necessary. An evening of conversation with Dr. Gumersindo Rodriguez, author of the Fifth Plan while Minister of Planning under Perez, served to fully confirm this perception.

That showdown is already being planned by Herrera and his international sponsors.

### **What will Herrera do?**

The self-consoling myth put into circulation by City of London-linked media is that the election of Herrera was a popular mandate against the aggressive development policies of Carlos Andres Perez. Nothing could be further from the truth.

The simple fact of the matter is that *neither* the Copei Party candidate (Herrera himself) nor his Accion Democratica (AD) opponent, Luis Pinerua Ordaz, campaigned in favor of continuing Perez's policies.

Herrera in fact won the election by default, not a "popular mandate."

During the presidential campaign and since his election, Herrera has argued for a policy of slowing down Venezuela's industrialization drive, announcing: "The entire nation demands austerity, and that will be our guide."

Herrera has further announced that he will:

\* **Make agriculture the first priority.** Perez's emphasis on industry, which ironically has resulted in agricultural growth rates of 11 percent and 7 percent the last two years, will be reversed.

\* **Impose "fiscal discipline" on the government budget.** Under Perez, the state has played a high-profile, dirigist role in directing the economy into areas of strategic priority. Herrera will try to reduce state spending and the state's role, leaving the economy to "free market forces."

\* **Reduce the balance of payments deficit.** Under Perez, Venezuela ran up a trade deficit due to heavy capital goods imports for its industrialization drive, and financed this deficit through long-term borrowing on the international credit markets. The Perez government predicted a reversal of this trend in 5-10 years, once the industrialization drive has become self-sustaining. Herrera wants to reduce capital goods imports and stop contracting debt in order to balance the books — even if this means a no-growth economy in real terms.

\* **Modify the price control system.** Perez kept strict control over the price of basic consumer goods. Herrera says this "distorts the market like a straitjacket," and must be changed.

\* **Increase oil prices.** Members of Herrera's transition team have called repeatedly for Venezuela to take advantage of the current crisis in the international oil markets and sharply raise prices. Perez's policy within OPEC was always one of moderation, playing a crucial mediating role between the price "hawks" and "doves" within OPEC. A switch by Venezuela into the "hawks" camp will have major, destabilizing effects on OPEC unity. Additionally, Herrera spokesmen have talked favorably about turning over Venezuela's oil to a U.S.-led "hemispheric reserve," where it would be used to launch warfare against the Arab oil producers.

#### **Who runs Herrera?**

Although there are factional differences within the ruling Copei party, the Herrera administration

predominantly reflects the political line of Copei founder, ex-president and Venezuelan patriarch, Rafael Caldera. Along with Colombian fascist Alvaro Gomez Hurtado, West Germany's Franz Josef Strauss, and the oligarchic Otto von Habsburg, Caldera is a founding member of the European Center for Documentation and Integration, the twin institution of the notorious Mont Pelerin Society which is headed by Milton Friedman and proposes Chilean-style economics of "free enterprise" and deindustrialization worldwide. Caldera has for decades been a top organizer within Latin America for this approach, working closely with Falangist networks such as those associated with the schismatic French archbishop Marcel Lefebvre.

Given the Caldera connection, it is no surprise that Herrera's backers today include the entire network of anti-nation building forces linked to City of London and Wall Street financial circles. The anglophile Schroeder's Bank and Solomon Brothers investment house are known to play a particularly predominant role in shaping Herrera's economic policy. And the London-dominated New York Council on Foreign Relations (CFR) has for years been working on destabilizing Perez's political and economic strategies, and is reportedly pleased with Herrera's policies.

The composition of Herrera's cabinet also reflects this "Calderista" dominance. Despite the fact that Herrera was forced to call on a large number of relative unknowns to be able to fill the posts, and despite the fact that he had to expand the cabinet to an unprecedented (and unwieldy) 26 members in order to satisfy all factions, the key economic posts of Finance, Planning and the Central Bank will all be held by Caldera-linked monetarists. The new Foreign Minister was Vice-Foreign Minister under Caldera in the 60s, and is also expected to reshape Venezuela's foreign policy away from Perez's approach of active Third World solidarity.

#### **Perez: will he return?**

The CFR's best laid plans, however, will be running up against bothersome reality. For the fact of the matter is

that Carlos Andres Perez may well be out of the Presidency, but he has no intention of meekly surrendering the reins of political power to politicians out to dismantle his nation-building efforts.

Up until his last day in office, Perez successfully countered every CFR attempt to use the "Echeverria treatment" to turn him into a lame duck — i.e. by fostering capital flight and political destabilizations of the kind thrown against Mexican President Luis Echeverria in 1976. In his final speech to Congress, Perez gave a six-hour, detailed account of the economic successes of his administration, announcing: "I leave my successor a solid economy." In a parting interview with the press, Perez hubristically claimed that had he been constitutionally permitted to run as the AD candidate instead of Pinerua, Herrera would have been soundly defeated. And, perhaps most significant of all, in a last speech to the Venezuelan Federation of Peasants, Perez told them that he will soon be able to fully enter the citizens' fight "without the obligations or limits that the Presidency has imposed on me." He went on to call on the peasants to organize themselves and to fight to make sure that the next government maintains the pace of development and investment in the countryside that he carried out. "If this process is halted," he warned, "we will lose everything we have gained thus far."

The significance of these remarks lies in that they indicate that Perez and his collaborators are taking concrete steps to remedy the main political weakness of their nation-building faction — their lack of an educated mass base in the population, which has thus far allowed Kennedy-man and zero growther Romulo Betancourt to dominate within the AD. Now, Perez has made it clear, he will move from the Presidency to seize control of the AD party machinery from the aging and discredited Betancourt, and from there build up his forces to run for the Presidency again in 10 years — the earliest he is constitutionally permitted to do so.

Even Perez's worst enemies concede that he has a good shot at succeeding in both these goals.

It is within this framework that the following interview with Dr. Gumersindo Rodriguez must be viewed. Here, the author of the Fifth Plan and one of the leading strategists of the Perez faction, talks frankly about the broader economic and political *theory* behind the enormous successes of the Fifth Plan, and behind the question of development strategy for the Third World as a whole.

— Dennis Small

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# The theory behind

## Part I of an exclusive interview with Dr. Gumersindo Rodriguez

Executive Intelligence Review's *Latin American desk chief Dennis Small interviewed Venezuela's Planning Minister Dr. Gumersindo Rodriguez while in Caracas last*

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### EXCLUSIVE INTERVIEW

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*month. Dr. Rodriguez's tenure in office ended this week with the swearing in of the new government of Luiz Herrera Campins. Dr. Rodriguez's comments are excerpted below in the first of a two-part series on the theory behind Venezuela's successful development plan.*

**Q:** How do you view the current dollar crisis?

**A:** I believe that the problem that the United States faces today in its balance of payments is a typical example of what economists call the "transfer problem," wherein the United States has issued international currency to pay for physical goods which it has consumed, or which it has used in its domestic process of production. In this way, the exporting countries retain a large portion of the dollars paid to them for their goods. If the United States were to exploit its full productive potential such that it could, in effect, pay its creditors with real goods—such as capital goods — which the United States' creditors, such as the OPEC countries, Venezuela, Saudi Arabia, etc., would use in their internal production processes, I believe the U.S. balance of payments problem would be solved. The paper would be destroyed through the mere flow of physical goods, which would be the counterpart to the physical goods which the United States has used. This would produce economic development in the countries that use those capital goods and would generate imports from the United States, basically agricultural products in the first stages....

What the United States ought to do is stimulate the export of capital goods to the countries where there is under-consumption, or under and unemployment. As demonstrated in Venezuela, the *indirect* effects of the installation of these capital goods, for example in the service, transport, and warehousing sectors, are highly labor intensive — even though during the production stages these projects are highly capital intensive. There is

# the development plan

housing that must be constructed near the projects, supermarkets that must be built, office buildings, business services, restaurants, warehousing and transportation. In this way employment increases, but at high wage rates, justified by the high productivity of the basic industry projects.

With these increased revenues, and since there are now deficiencies in the consumption of basic agricultural goods, consumption of agrogoods skyrockets. Domestic agricultural production cannot satisfy this demand in the short term. This first stage will stimulate the importation of agricultural goods, from which the United States would be the principal beneficiary.

If the United States organizes its medium-term (five to seven years) financing for the import of agricultural goods by these (developing — ed.) countries, such that they need not pay “cash” — which is the current system — then these countries could import without negative effects on their balance of payments. This would also improve the United States’ balance of payments.

Thus, I believe there is a *perfect correspondence* between the interests of developing countries’ industrialization and the solution to the dollar problem, through an intensive capitalization of the productive processes, through an improved level of income for the population by way of higher levels of employment. And I believe this will ultimately result in a highly favorable agricultural balance for the United States. I believe that the United States’ dollar problem will be solved in the long run according to how the U.S. facilitates the export of its capital goods — which cannot be produced by the majority of our (developing — ed.) countries — which will improve our basic productive activities, and which will create a great demand for agricultural products to be satisfied at first by the United States. At a later stage, the United States will have to assist our countries by transferring a part of its agricultural technology, to allow highly capital-intensive agricultural production in our countries as the way of satisfying our agricultural needs.

## Nuclear energy

**Q:** *This is exactly the strategy laid out by the U.S. Labor Party and its presidential candidate, Lyndon LaRouche.*  
**A:** Yes.

**Q:** *And it is mentioned often these days in Europe as well, in particular by Giscard d’Estaing and Helmut Schmidt. They see the creation of capital goods markets in the Third World as the solution to their own economic problems. There is an intense debate in the United States on this point, whether or not to link up with the European Monetary System, which proposes exactly the solutions you have described. Your argument, then, would be that it is mutually beneficial for the Third World and the advanced sector to achieve the industrialization of the Third World? In this context, what should be done with the enormous Third World debt?*

**A:** I think your first question was answered to a certain extent in my initial comments. I repeat, there is clearly a commonality of interest between the highly capital-intensive industrialization of the developing countries with high productive potentials, like Venezuela, and the long-term interests of the U.S. economy and the industrialized countries in general.

### Who’s missing out on Venezuelan development?

Origins of Venezuelan imports — first semester 1977

(Millions of \$)

Origin	Mid-1976	Mid-1977	% Increase
Japan	208	414	98.0
EEC	637	1040	63.3
Canada	96	157	62.8
Spain	67	107	60.2
USA	1232	1440	16.9

The Foreign Trade Institute released these figures at a time when the Carlos Andres Perez Administration was warning U.S. businessmen that they were losing out on contracts for major projects set into motion by the Fifth Plan. At one meeting with a trade delegation from the U.S. Department of Commerce in 1977, Perez challenged the American private sector to compete more aggressively for Venezuelan sales. According to Caracas government sources, West Germany, France, and Japan are still getting the lion’s share of the increase in Venezuelan orders.

Source: Venezuelan Foreign Trade Institute

Now, within this process of industrialization there is a point which you have strongly emphasized, which is the question of electrification and the generation of electricity. I remember when I was Planning Minister in Venezuela, I presided over the Nuclear Affairs Commission, as well as the Regional Development Council — which coordinates regional development corporations — and we evolved coal development programs and so on. In accordance with the guidelines of the Nuclear Affairs Commission, all the research and feasibility studies have been done for the creation of a nuclear power plant for the 1990s. According to the studies that were done, the trends in oil prices would make it more economical to generate electricity in Venezuela with nuclear rather than oil-powered plants. By that period we will also have used up our water reserves from the Guri and the Cauca waterfalls (which are now being used in Venezuela for hydroelectric power generation — ed.).

Our objective in the hydroelectrification of Venezuela has been to reduce domestic consumption of oil in order to free it up for export. Of course, as in any electric power system, you can't depend on any one single source of energy as there are great logistical risks, especially when that one source is concentrated in a few water falls; so we decided to generate thermal reserves, using coal rather than hydrocarbons. On this basis, we initiated studies on the installation of coal-based thermoelectric plants. All this will result in the freeing up of more oil for export.

In the process of domestic industrialization we have, for example, put an end to the chaos we had in the automotive sector: too many models, too many assembly plants. We reduced them to a very limited number, and then proceeded to change the construction of the motors to include much more aluminum in the automobiles to reduce their weight, thereby facilitating savings in fuel consumption. This will produce a higher yield per gallon, more kilometers per gallon, and this too will release a certain relative amount of petroleum derivatives for export.

In the future use of nuclear energy, it might also be possible to cooperate with Brazil, in the sense that they have done exploration and there are already potential programs for cooperation in the Roraima, the common border between Venezuela and Brazil, where there are large uranium deposits. The next question will naturally be the eventual agreement on how to contract the corresponding uranium enrichment. As for the risks, of course we have studied them; but the same risks exist in the case of flaws which could lead to the collapse of a dam, which also claims victims. These things have already been studied technically.

But I want to say, as regards energy, that the process of our industrialization must assure the conservation of the physical wealth of our country — that is, that it be

highly capital intensive, but of low resource intensity — to a point. So that when you electrify, for example with nuclear energy in the future, you are using a highly capital intensive process, but it is, at the same time, of a low resource intensity. Since you have low resource intensity, the country will have at its disposal more resources for a longer period of time for industrial applications — for the petrochemical industry for example.

## The debt question

Now, regarding your other question on monetary and debt problems of the developing countries. I think the current debt problem is one of the nonparticipation of the developed countries' public sectors, as a result of the lack of aid. So, the developing countries have been contracting very short-term debt, mainly with commercial banks in the Eurodollar market, in order to finance those capital-intensive projects which require longer-term financing. Due to the lengthy planning and gestation of maturation period required by these projects, the flow of real earnings of social income that the projects generate is not appropriately synchronized with the foreign payments which must be made (on the debt— ed.).

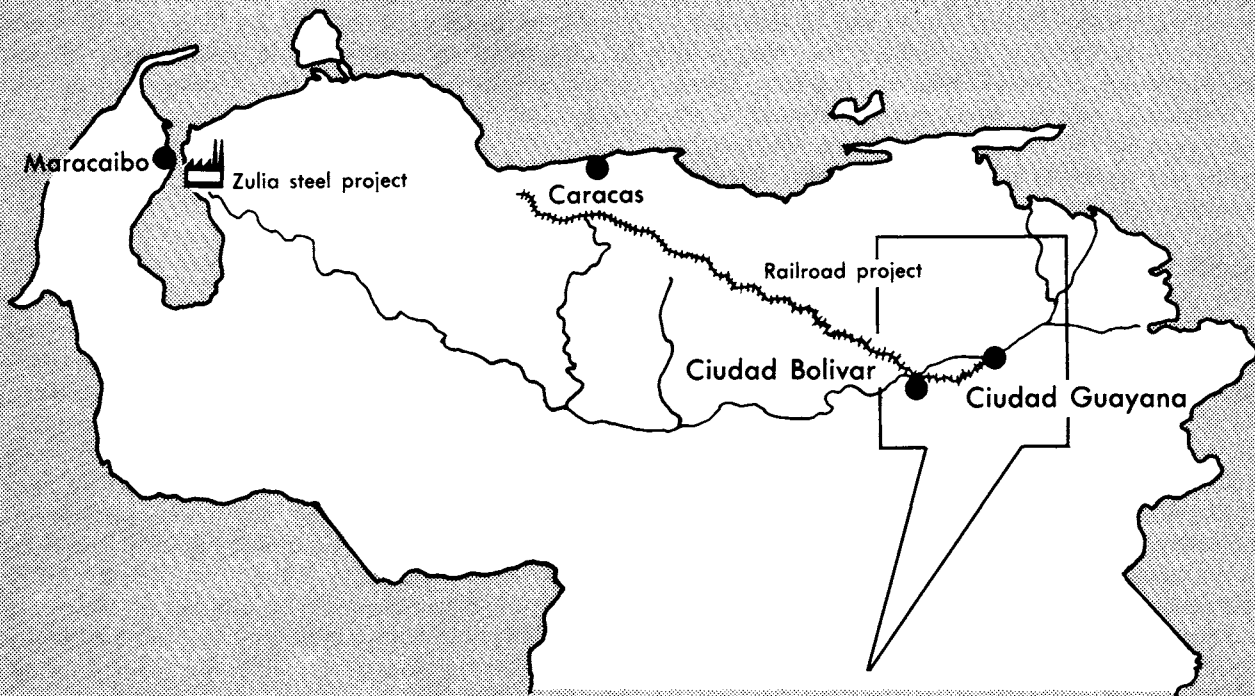
Another problem is that many of these projects generate social income which is consumed internally, but do not generate foreign exchange in sufficient quantities. One of the problems we have, therefore, is how to adopt policies to allow part of these highly capital-intensive projects that are financed by foreign credits to, at the same time, save foreign exchange by substituting imports or generating exports, in order to pay for that part which was financed with foreign credits.

I would say that the most important problem today would be inducing long-term public or private capital flow linked, of course, to the maturation period of these highly capital-intensive projects which must be financed.... We must think and look for a formula, many formulas, to achieve this.

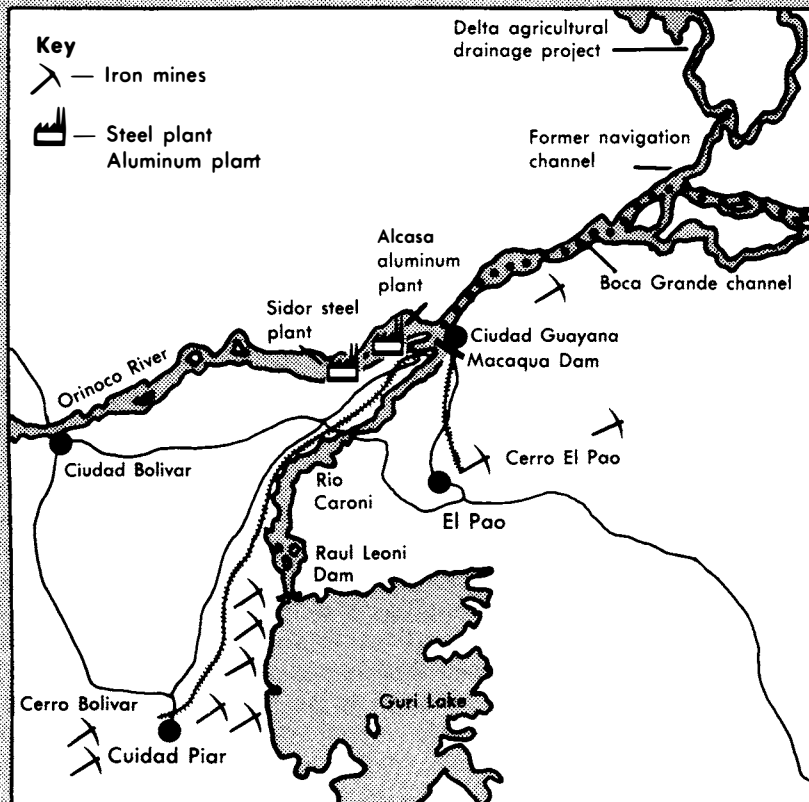
I believe, for example, that the banking system, with state backing, could well establish better roll-over procedures. You convert short-term credit into long-term credit — that is, you convert it into a revolving credit — if the creditor is certain that you will have the foreign exchange to pay in the future. If there is any doubt that you will have that foreign exchange, the short-term credit will never undergo this conversion. In other words, the first thing that must be done is to adopt measures to assure a permanent flow of foreign exchange from these (borrower) countries. Now, how will this be guaranteed? The most practical way is to apply highly capital-intensive techniques to natural resource-related sectors which would allow savings of a considerable amount of foreign exchange that would other-



## Heavy industry in Venezuela



Ciudad Guayana, hub of Venezuelan heavy industry: From a rural town of 40,000 15 years ago, Ciudad Guayana has grown into a major city of 500,000 at the center of one of the largest industrial complexes in the Third World. Sidor, the state steel plant, will quadruple output by 1982. The expansion of Alcasa, the government aluminum refinery, will make it the largest in Latin America by the mid-1980s. The Raul Leoni Dam is undergoing a \$7 billion expansion program that will make it the fourth largest hydroelectric complex in the world. By the middle of the coming decade, the integrated Zulia coal and steel complex will come on line near the key oil city of Maracaibo, nearly duplicating the huge Guayana complex.



wise be used on imports. This would significantly ease the balance of payments situation of these countries.

I do think a formula could be agreed on, for example, in the case of the OPEC member countries. The oil exporting countries of OPEC maintain, and will maintain or recycle to the United States and to the Euro-dollar market in general, the dollars that they will receive as a result of the increase in oil prices. These countries have already run into serious problems in their physical capacity to carry out certain investment programs — especially the Arab nations, because Venezuela's capacity for absorption is much greater than that of the Arab countries. I think that a mechanism for international guarantees could be designed, in which OPEC countries, the multinational companies that export capital goods, the U.S. government, and even the World Bank could participate, with the object of guaranteeing the payment of this debt. That is, guarantee the debt of some developing nations in order to lengthen the maturity of that debt. OPEC — Venezuela or the OPEC Fund — instead of lending money directly to poor countries that are having balance of payments problems, would guarantee the debt incurred by those countries for specific projects that produce substantial savings on imports. For example, in Latin America you could guarantee financing by international banks for a client state which doesn't produce oil but which is going to develop its hydroelectric or coal resources, or which is planning automotive development to modify car motors to free up oil as a source of energy.

It is not a matter of merely lending, but of lending directly and perhaps guaranteeing loans. Because guaranteeing loans has the advantage of not using up all of your resources as you do in lending. Countries like Venezuela and other OPEC countries have given loans to help non-oil-producing countries with their balance of payment problems. But not much has been done to help them finance projects, because the World Bank has always been opposed to financing projects, especially energy projects. Such energy projects — using hydroelectricity, nuclear energy, or coal — would permit many of these non-oil-producing developing countries to resolve their balance of payments problems over the long term.

In 1975-76, I was designated chairman of the World Bank meeting, and, in my opening speech, I referred to something which only now is gaining support.... I stated how the World Bank should finance projects in the exploration and development of hydrocarbons, for example. The World Bank had never wanted to finance projects of this kind. I spoke with Chenery, I spoke with McNamara about this matter. I made the speech myself. They didn't prepare it for me, the group didn't do it for me, as is usually the case.

In synthesis, I would say that this debt problem is severe, and can be resolved through measures, among

which would be a coordination of multinational corporations, governments, and financial institutions of the oil producing countries to guarantee the debt, especially the short-term debt, that the developing countries hold with the financial system and, in this way, achieve an extension of the terms of the debt. And this, I think, would be important: channeling future indebtedness, or that which is freed up by extension of terms, into priority projects of basic industrial development.

## The EMS as an alternative financing source

*Q: Within this question of monetary and financial alternatives, the European Monetary System, inaugurated this year, has offered a monetary option to the problems of indebtedness and development of the Third World, by setting up a multibillion dollar fund with the idea of making loans to the Third World. These credits will be directed to industrialization projects and the transfer of advanced technology to the Third World. What is your opinion of the European Monetary System? Do you see the European Monetary System as an option, as a step toward the new world economic order? And, specifically, what does this mean for Third World countries like Venezuela?*

*A:* I think that to the degree that more options are opened for holding assets, to the degree that there can be a monetary unit of the European system, for example, which is an aspect of that entity, central banks of all countries will have a greater option to diversify their assets and will also have more vehicles for covering their normal commercial transactions. I think this is positive. It is positive in that it expands these options and protects our countries from the risk of putting "all the eggs in one basket."

Of course, if the cost of achieving a European currency is an adjustment, let us say, with an inflationary "bias" for countries with greater (balance of payments) surpluses, such as Germany; if Germany has to adjust itself upwards in order to somewhat reduce the high value of the mark and, by so doing, cuts down a bit the high weighting of the mark in the currency "basket" which is going to shape the European currency; if there is expansion in Germany in order to reduce Germany's balance of payments surplus within this organization, then this expansion could be highly beneficial to our countries, to the degree that this expansion is translated into greater imports of manufactured goods and resources from our countries. If the implementation is done with a greater expansion of the surplus countries like Germany, which have huge import capacities, evidently, the creation of this system will be favorable from the outset. It looks like — and I don't have access

to technical material or anything more than press reports on which to base my judgment — it will be highly favorable.

## What is the Fifth Plan?

*Q: Moving on to the national level, you, Dr. Rodriguez, are considered the “intellectual author” of the Fifth National Plan. Could you describe this plan in terms of its basic objectives? And what are the means to achieve these ends?*

*A:* I would say that the National Plan, if we think in terms of the document as the norms for the country's development, concretized in specific programs, is the expression of an unavoidable and irreversible reality. The National Plan is *not* a project for the integral transformation of the country — economically, socially, and culturally — as some people might imagine. Rather, its field is highly concentrated in a strategic vision, which of course has implications for the rest of the society, economy, and culture which could not be included in the formation of the Plan itself. That is, it is a plan of a basically strategic character, in that it concentrates on the basic, essential sectors of the country.

One plans starting with conditions which come from the past, which one has not created. Neither does one have total control over the variables of the future. Thus, those of us who designed the National Plan found ourselves really in the center. I remember a famous phrase of a leader of the left wing of the British Labour Party, who used to say that world society has two problems: that the English are slaves of the past and the Russians are slaves of the future. I was always impressed with that phrase.

So, one finds an already organized past. People consume and their standard of consumption is already the expression of a civilization, which is a technical civilization, Western civilization, capitalist civilization, or whatever we call it. This civilization has become highly developed. This is all the outcome of an evolution which I think has been taking giant steps since the Neolithic Age. We came through the age of lapidary stone to the metallic age of the great industrialization processes.

You can't really tell if man could have found other standards of consumption and survival than those which he found, but these are the ones which have been passed along. And there have been ascending changes moving from one natural resource to another. Man could have perhaps, in an extreme Buddhist philosophy, found a way of processing air and living on that and perhaps wouldn't have destroyed nature nor made deserts. But, the fact is that we have a specific standard of consumption.

This is expressed in our modern age by durable consumer goods: automobiles, televisions, stoves, washing machines, refrigerators, polishers, etc. It is considered

that this contributes to the progress of mankind, making happier homes and giving people more free time which man could potentially devote to the more delicate aspects of the spirit.

This is considered to be progress — and you would be hard put to deny that it is progress — despite all its defects. For example, I think that the auto industry might have given man a bit more freedom — conceivably we could find much better, much more efficient, transportation systems. However, up to now, the auto has been accepted as an element of humanity's progress by capitalist society. It also has been implemented in the Communist development model in the Soviet Union and Communist China is really trying to get itself on the same wavelength of this pattern of things.

Thus, we receive this standard of consumption. Now, we are a country which has not developed its export capacity — of agricultural goods and other continuous reproduction goods — so the only export item we have is our petroleum resources and iron ore....

If these are our only resources and they are non-renewable, unlike the case of agricultural products, then we find ourselves faced with the following problem: If the population keeps growing and keeps improving its real per capita income, the income elasticity of demand for consumer durables is very high. Thus, we would have to keep importing consumer durables in great quantities. Now, the traditional model, the “ECLA” development model, tried to say: “Okay, produce these consumer durables domestically — the refrigerators, TVs, cars.”

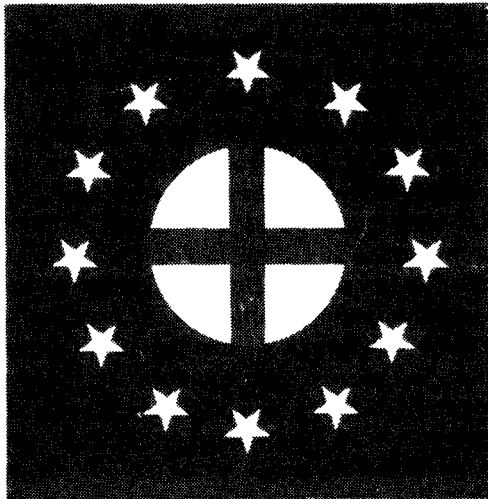
[Rodriguez is referencing the “developmentalist” model designed during the 1940s and 1950s by Raul Prebisch and his followers in the Economic Commission for Latin America. The ECLA or, by the Spanish initials, CEPAL, model ordains that the Lesser Developed Countries (LDCs) build up relatively labor-intensive industries to supply previously imported consumer products, but strictly limit the growth of basic industry—ed.]

But this just meant transplanting the same commercial distribution system, since what was done was simply to assemble in our country the imported components of those durables. Hence, to produce those consumer items we had to import technology and import the basic inputs, the parts, the components, to be assembled in our country.

The same is true even of our agriculture in Venezuela. Since we haven't developed forage crop planting to feed our cattle, ranching ends up being an assembly industry, just like auto. You simply import soy and import sorghum from the agricultural countries of the developed sector to be processed into cattle feed in our country....

The problem posed to us was: get rid of the ECLA model.

*To be continued*



Symbol of the Pan European Union

### In this section

Our Special Report this week begins the serialization of a lengthy exposé of Otto von Habsburg and the Pan European Union that will soon be released in pamphlet form by the European Labor Party in West Germany. The pamphlet, *Are the Goals and Activities of Otto von Habsburg and his Pan European Union Unconstitutional?* was prepared as a report to the Special Party Convention on the European Parliamentary elections of the European Labor Party held in Bonn on Jan. 28. The convention approved a slate of candidates headed by the party's Federal Chairman Helga Zepp-LaRouche.

Habsburg is also on the slate for the June 10 elections — the slate of the Bavarian Christian Social Union, even though he is not a member of the CSU. An Austrian citizen, he gained his West German citizenship last year from the CSU-controlled Bavarian state government.

The European Labor Party report was translated from the German by James Cleary from our Europe desk. Quotations from Count Richard Coudenhove-Kalergi are taken from the extensive number of books and articles published between 1925 and 1970 and which the Pan European Union has made available throughout Europe, particularly through its journal *Pan Europe*.

# Who is Otto

*Part I of an ELP expose of what's behind*

Archduke Otto von Habsburg-Lorraine, the leader of the Pan European Union, wants to use this year's European Parliament elections to launch an all-out attack on the European Monetary System, its cofounders, Federal Chancellor Helmut Schmidt and French President Giscard d'Estaing, and its intellectual author, U.S. Labor Party Chairman Lyndon H. LaRouche, Jr.

In a recent interview, Habsburg applauded the Chinese as "national socialists ... eminently useful in containing the Soviet Union," railed against detente as "the quickest, most dangerous transfer of technology to the Soviet Union enabling the Russians thereby to strengthen their efforts to destroy the West," and appealed to East Europe, particularly "Hungary and Romania ... the only nations in the East bloc whose people are not slavs," to "cut away from the Russian sphere of influence altogether." In fact, Habsburg's view of a "Europe of the Regions" includes pulling Romania and Hungary away from the East bloc and into a reconstituted Austro-Hungarian empire ruled by the would-be heir to the Habsburg throne.

This report uncovers Otto von Habsburg, his international oligarchical network, and his long-term commitment to the "unification" of Europe through the feudalization of Europe — a commitment shared by his family's influential Order of the Golden Fleece.

### An open conspiracy

As early as 1954, Count Richard Coudenhove-Kalergi, the founder and leader of the Pan European Union, until 1973, described the organization's character in the postwar period:

"The Pan European Union should become the

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# von Habsburg?

## *his Pan European Union*

unofficial representative of the multilingual European Nation — going beyond all languages and parties — and without any kind of Communist infiltration. This will force the PEU to become a solid international group, a political club, a kind of open conspiracy as H.G. Wells described in one of his books....”

It is no accident that Count Coudenhove-Kalergi cited H.G. Wells. Wells, the British science-fiction writer and secret service agent, was Coudenhove's most important “intellectual father” among the inner elite of oligarchs that set up Count Coudenhove-Kalergi, as they did Adolf Hitler, to function as their instrument against the industrial and East-West cooperation policies of the Rapallo forces of the 1920s. At the beginning of this century, H.G. Wells had developed the “New Dark Ages” scenario for securing the British oligarchy's world rule: After a great catastrophe, such as a great war, a small elite established as the “priests of science” will rule the decimated masses of their “subjects” from their country seats through the use of feudal methods, the application of magic, the Occult, drugs, and synthetic cult-worship.

It was this scenario for the “New Dark Ages” that Count Coudenhove-Kalergi had in mind when he began setting up the Pan European Union in the 1920s and 1930s with the support of the banking houses of Rothschild and Warburg. He combined elements of Anglophile Nazism like Hjalmar Schacht's concept of corporatism and the concentration camp, and Karl Haushofer's geopolitical concept of the encirclement of the Soviet Union, with H.G. Wells's cult teaching to set up a fascism movement, the European “Blue Shirts Party,” which paralleled Hitler and Mussolini's organization.

Its symbol was the red cross impressed on the sun disk of Apollo.

Otto von Habsburg's Pan European Union follows the same tradition. Its Statement of Principles in 1973, when Habsburg took over the leadership of the organization, states:

“The Pan European Union, which is meeting for the first time since the death of its founder, President Coudenhove-Kalergi, announces its unbreakable fidelity to his ideas and ideals; it also promises to continue to work in his spirit.”

The PEU, an antiindustrial and anticapitalist shock troop, wants to use the European Parliament elections to implement Britain's medieval model throughout all of Europe. It is a flank in Britain's global destabilizing deployments, which include the fight over the U.S. presidency and Iran-modeled “religious rebellions,” primarily along the southern border of the Soviet Union.

“In order to be able to realize these ideas, the PEU also needs representatives of its ideas in the future European Parliament. Two PEU Vice Presidents already belong to the European Parliament. The task of the PEU must be to exert influence on those political parties that are closest to it in order to send even more representatives to the presently forming European Parliament. Negotiations with those who have responsibility in these parties are already under way.

“Wherever PEU candidates are nominated, the organization will also take part in the election and

will work for these candidates with the goal of getting as many PEU candidates as possible on the party lists. The PEU does not consider the formation of its own party to be of service toward its goals, and believes in getting its candidates to the goal through the path provided by the existing parties."

Given the fact that Otto von Habsburg has obtained a leading place on the Bavarian Christian Social Union party list, according to CSU Chairman Franz Josef Strauss, who considers Habsburg a "desirable element," then it is particularly urgent to put an end to this "open conspiracy" before the plans for a feudalized "Europe for England" became a reality.

### **Habsburg's "Paneuropa of the regions"**

The "French model" of a "Europe of the Fatherland" is composed of sovereign and centrally organized nation-states along the lines proposed by Charles de Gaulle. It is oriented toward economic and industrial progress, turning Europe into the supplier of advanced technology to the entire world. This model is the basis of the European Labor Party's program, "The Entente of the Sovereign European Republics."

Habsburg's "Paneuropa," on the other hand, will be divided into national minorities and separate regions. It will be divested of its industry and used as Britain's battering ram against the states of the Warsaw Pact. According to Strauss, this Europe will "overcome narrow categories of thought limited to the nation-state and will allow the forces of the political structure that has matured to become fruitful for the coalescence of the community."

Today, the ethnic groups of the "Working Group of Alpine countries" (ARGE-ALP), the future "Alpine Fortress" of Europe's oligarchical forces, already serves as a model for the "political structure that has matured."

"With the establishment of the ARGE-ALP, a milestone in the unification of Europe has occurred that has the character of a model. So the urgent cry for the unification of all European countries will go out from Tyrol and Innsbruck.... We demand of the governments that they follow the will of the great majority of the European peoples and that they undertake everything to correspond to this will, and to further the formations of regions that go beyond the national boundaries, and they give these regions seats and voices in a European parliament...."

Naturally, these self-administered regions will have no powers concerning other states. The regions will concern themselves with all the petty and smallest detail of a

"kitchen" that is always becoming smaller. One can well imagine how, according to Hapsburg, the "politically closed-off race of the Voralbergers" will look out for the race of the Ostfriesens, and vice versa.

This classical British self-government concept, with which the British have a long experience as a colonial power, will destroy the sovereign nation-states of Europe. The decisive geopolitical establishment of Europe as a front directed against the Soviet Union will be controlled by the "traditionally supernatural oriented imperial rule of the Habsburgs." Otto von Habsburg's goal is to set himself up before the European Parliament as a monarch, who determines Europe's defense, foreign, economic, finance, research, energy, and environmental policy.

In practical form this would be the realization of Wells's utopia of a small elite of "priests of science" who would keep the masses of their subjects in perpetual feudal existence.

The goal of "Paneuropa" is the annexation of the East European countries, because "these people were bartered away to hegemony at Yalta in 1945."

"Even in the atomic age, our security can only be guaranteed by having the Carpathian Basin and the Balkans free of foreign influence. And above all, this program does not exclude the West coming together, so long as the liberation of the East is not a fact. It is only that the thought that must follow this smaller solution is that it is not all of Europe, but only the seed kernel of its future greatness."

The "annexation" is to be carried out through increasing subversion of the East European countries following the model of "Prague spring" in Czechoslovakia. It would be a part of a global destabilization, in which Otto von Habsburg wants to employ his old Eastern Division of the Maltese Order, his "leftist dissidents," and the ethnic minorities in the former "imperial" territory. Just a short time ago, Habsburg repeated his conviction that Romania and Hungary are the best possibilities for subversion.

"The integration of the earth should make Western Europe the center of attraction for those areas it touches on, as soon as a change in the long term weather situation, which will be announced by events in the Far East, gives the middle European peoples the possibility of winning back their independence and of exercising their right to self-determination."

### **Haushofer-Habsburg-Hitler**

The Anglo-Bavarian agent and geopolitician of the Wittelsbach royal family of Bavaria, Major General

Karl Haushofer, was responsible both for the training of Adolf Hitler and the inner Nazi circle, and for writing most of Hitler's *Mein Kampf*. All of the Nazis' basic ideas show their origin in the teachings of Karl Haushofer: geopolitical expansion to the East, an economic outlook of hostility toward industry, and the application of the Darwinian theory of the "survival of the fittest."

Major General Karl Haushofer not only had close relations with Hitler and the leading Nazis, but also with Count Coudenhove-Kalergi, who wrote:

"In 1933, General Haushofer from Munich visited us. We have known him for years. He has always found friendly words for Paneuropa in his *Zeitschrift für Geopolitik*, for he is sympathetic toward it because it is a 'major territorial idea.' During the evening of the foundation of the Munich Paneuropean group he and Thomas Mann were the table neighbors of my wife. But in spite of his major 'territorial policy,' he was a Bavarian monarchist. He faced the Third Reich with great skepticism. He depicted Hitler, whom he personally knew, as the typically half-educated person. But in contrast to this, he spoke very warmly about Rudolf Hess. He related how, after the Hitler putsch of 1923, Hess fled to him and he hid him from the police for a week in his villa. 'If Hess is really such a nice person,' I said, 'how could he then become a Nazi?' Haushofer was not taken aback for he answered: 'He then met that Hitler and became a Nazi; if he had met you, he would have become a Pan European.'"

Otto von Habsburg has a deep admiration for the teachings of Adolf Hitler and Rudolf Hess. At an election rally in Munich during the summer of 1978, Habsburg complained that he, unfortunately, had never had the chance to study directly under Karl Haushofer. Nevertheless, he knew his geopolitical studies very well — which is otherwise a notable component of "unbreakable fidelity to Count Coudenhove-Kalergi's ideas and ideals." Shortly afterwards, Otto von Habsburg confirmed this connection:

"A study of history using this perspective teaches us that technological changes, be they ever so penetrating, only change the laws of geopolitics very little. Of course there are new dimensions, but the essential remains the same.... The experience of the past teaches us anyway that the laws of geopolitics are only an offer. The decision to use them or to misconstrue them belongs to man."

In correspondence with the laws of geopolitics, Bavaria, "a geopolitically important area for hundreds of years," is once again to fulfill an "historic task": together with the lands of the "Alpine Fortress," Bavaria serves as the

launching point for the subversion of the sovereign republics of Europe, East and West:

"Once again as in the time of the change into the present millennium, Bavaria becomes the eastern march of a Europe united in itself.... This development demands that Bavaria once again think and act in a worldwide sense. The new situation is a challenge to the policy of Bavaria.... The first duty against such a hostile thrust forward is to bring the attack to a standstill, to hold one's position. One can say that Bavaria has fulfilled this task....

"In order to hold firmly to one's own soil, the decision has been made to defend the rights of those who have fallen under the hegemony of powers outside of Europe. Here, too, Bavaria, as Europe's eastern march, has played an essential role. Why, it was just recently that the Bavarian state government effected that decision on Ostpolitik by the Federal Constitutional Court in Karlsruhe ... that will also secure legitimate claims for the future. This policy by Bavaria earns the thanks of a truly free Europe."

The fact that, in the meantime, Franz Josef Strauss has become the Minister-President of the Free State of Bavaria guarantees that Otto von Habsburg's geopolitics will be understood in an effective sense. Strauss said in his first government declaration:

"The self-conception and the particular state characteristics of this country stem from a history that has been changing for more than a thousand years. This historical heritage is still a living reality for us today. In the previous centuries, political thought and deeds in Bavaria were never solely limited to the state of Bavaria.... As a land of measure and moderation, Bavaria stands in the focus point of the intellectual, cultural, and political currents of Europe...."

Otto von Habsburg outlined the role Munich and Bavaria are to play in his "Paneuropa."

"In the postwar period, Munich will be described as the secret capital of middle Europa. He who notices today how strongly Munich affects the Danube Basin and Bohemia will ascribe to this statement. It is not too imprecise to say that numerous emigrants who come from non-German peoples exert themselves to set up their residence in Munich in order to preserve those kinds of ties to their old homeland.... Bavaria and its capital city of Munich are called on today more than ever before to carry out large-scale politics. It has a parallel task to that which Vienna has fulfilled in the course of history.... A lot of items in the future of Europe depend on Bavaria fulfilling its historical sense of duty.... Bavaria's responsibility



in and for Europe is essentially greater than at any time since the end of the 14th century....”

## Paneuropa — economic autarky

The organization of the economy will be comparable to the “feudalistically backward, but autarkical” principles of the late Pol Pot regime in Cambodia. Habsburg would dismantle the “unintelligible monopolies” in favor of “many small, independent existences.” Instead of capitalism or communism, the PEU advocates the “third way” of a feudalistic, oligarchical life on the land. The PEU stated in its Declaration of Basic Principles of 1973:

“In the same manner, the PEU stands out for maintaining the independent and family-operated concerns. It is convinced that Europe needs a strong peasant class, and keeping such a class, firmly rooted in the soil and materially assured, is an essential precondition for maintaining the balance of power in our society. It will oppose, with all the means at its disposal, those who want to sacrifice the existence of our agriculture on the altar of alleged economic rationality or to the false understanding of the challenges of international trade.”

The PEU is not concerned with the very necessary increase in the capital intensive productivity of agriculture, but with the manipulation of those “true to their homeland,” the population clinging to the “soil” of their own little piece of land, to favor its own geopolitical ideas. Habsburg says:

“If developments continue to go this way, Europe will find itself in the not too distant future, in the position that we find the USA in today. Only about 10 percent of its total population can still live from the land. In addition to this, one cannot forget in this overseas example that there was never a peasant class, as we know it, in the United States. The main form of economic activity was the large-scale operation, and even the small-scale owner was not bound to the soil.”

True to the concept of the “priests of science,” according to H.G. Wells, Habsburg does not totally reject advanced technology. He advocates technology for the armaments sector, but he stands with the “good, sensible, but somewhat romantic environmentalists” against the industrial application of nuclear energy: “Nuclear technology and advanced technology are very dangerous, really very dangerous.” The masses would never understand advanced technology as such. Because the masses only remain controllable through the mystification of technology, Habsburg wants to make certain as the monarch of Europe that this kind of technology is only accessible to an elite.

Habsburg’s “third way” coincides with what the propagandists of the postindustrial society are saying:

“Both systems — capitalism and communism — are expressions of the demon of production. In both of them, the expansion of production stands in the center of their picture of economics. It cannot be denied, that an infinite number of possibilities lie in the philosophy of a classless state — particularly in the perspective of the future....

“A properly planned decentralization of industry in peasant areas can create extra income for the peasants there, which will make the living standard of the countryside fully equal to that of the city, while those who live in the countryside will once again enjoy the advantage of their own soil and of a healthy environment. Shortening the number of hours worked will, by the way, make this essentially easier.”

What is very interesting is the direct comparison to *Mein Kampf*.

“Winning new land and soil on which to settle the surplus number of people has infinitely many advantages, especially when one does not have the present, but the future in view. Naturally, the possibility of maintaining a healthy peasant class as the fundamental basis of the entire nation can never be valued highly enough. Much of our present-day suffering is only the unhealthy consequence of the relation between the agricultural and urban populations. A firm stock of small and medium-sized peasants was always at all times the best protection against social sicknesses, such as those that we possess today.”

Another warning by Karl Haushofer must have particularly enlightened Otto von Habsburg, namely that “urbanization,” a precondition of industrialization, must be undone, because “to the extent that a nation loses its agricultural character and urbanizes itself, it loses its control of territory and is therefore a weak nation.”

Count Coudenhove-Kalergi’s philosophy exerted just as strong an influence on Otto von Habsburg as the teachings of geopolitician Karl Haushofer. Writes the Count:

“Our civilization is a culture composed of major cities and, therefore, it is like a swamp plant, born by degenerate, sickly and decadent people who voluntarily or involuntarily have fallen into this dead end of life.”

Count Coudenhove-Kalergi’s philosophy of “hyperethics,” of “applied aesthetics,” proposes that rigorous methods be undertaken to overcome this “dead-end civilization.” The problems which caused him such nightmares were solved later in the programs for the “Final Solution,” carried out by the Nazis’ racial

hygenicists, who were also schooled by the British. The only difference between the two is that instead of the word "racial hygenics" Coudenhove uses the British word "eugenics." In parallel to Julian Huxley and L.S. Amery, the British Colonial Minister, he developed eugenic principles of selection that Hjalmar Schacht would later apply to the concentration camps.

"The science of eugenics, which should lead to realization of practical biology, belongs to the future. It will soon be associated with Nietzsche's world outlook and, through it, gain the striking power of a religion. Eugenics teaches the higher breeding of human beings, the exclusion of the less desirable from further reproduction. The new selective breeding."

Because most people represent "material of less value," he suggests that "as in animal breeding, only the most perfect examples of humanity should form the future race."

He describes in detail those criteria according to which the value of a human being will be determined in a future society.

"Breeding will play the decisive role. For even the greatest and best reforms on the individual level will be of little use when the material is poor, decayed, and of little value.... What results from the impartial observation of modern European and American people is that what is involved here is the very considerably degenerated successors of a very beautiful and noble race. But only the physical perfection of its rare notable examples ... speaks for the great possibilities of this race. The large, blond, well proportioned man with a hairless breast, white skin, oval face, blue eyes, high forehead, narrow loins, noble hands and feet, and thoroughly intellectual features doubtlessly belongs to one of the greatest creations of nature, the product of an ancient culture and longterm breeding.... And because the appearance of a human being is the expression of its inner essence, just like the appearance of an animal or plant, the exterior decay of the average European points to his inner degeneration...."

According to Coudenhove, the only country that really understood his principles was England:

"England is an oligarchy of breeding ... and even today the inheritors of this great example of human breeding are in the front-most ranks of its statesmen. England, which stands at the peak of horse and dog breeding, recognizes the importance of heredity and used the inherited value of its aristocratic caste to the advantage of the entire nation."

This "natural aesthetic" consists of the rejection of all

"artificial systems of morals," such as Catholicism, which Coudenhove predicts will die out. "Aesthetic laws" alone will be decisive:

"The will toward the beautiful rules man from the awakening of self-consciousness to his last breath. It controls him most strongly during the breeding period. Only aesthetic laws hold in selective breeding, not ethical ones.... Nature wants to breed the strongest and most beautiful individuals. It wants to allow those of lesser value to die out and become extinct. So nature at breeding time becomes a contest of strength and beauty. The victor is allowed to procreate and conquer death through form."

Because mankind's reason is not creative enough and only "fantasy and intuition" is "really human," Coudenhove suggests that the Europe of the future return to the Apollonian sun cult, represented in the symbol of the PEU:

"Nordic man's return to nature and the sun cult is the return to his oldest traditions. There is nothing foreign or artificial about these myths. They do not contradict a scientific outlook on the world and yet they stay in harmony with one of our most primitive instincts: with our idealistic and heroic ethics."

This philosophy can be counted on as finding spirited agreement among all oligarchical circles, the "environmentalists," and among all anti-industrial "Maoists" and so forth, for the realization of their ideology requires not only the rigorous application of Darwinian principles, but also the Rousseauvean principle of "back to nature."

"If the Occident is to be cured, then everything must be done to replace the flight from the land with the flight from the cities. This is possible by the advancement and intensification of agriculture, by land reform, by the colonization of countries lacking people, by the furtherance of the agricultural tradition, and by the creation of an intellectual current that will lead people back to the soil."

The main goal then, as it is today, is to rule out the "danger" of rational, industrial, and technological progress embodied in the American and Soviet systems.

"The victory of Americanism over the European soul means Europe's conscious rejection of its traditions, the replacement of humanist education by technical training, and the replacement of a culture of quality by a culture of quantity, the replacement of form by number. It means the rejection of Romanticism and of all beauty for which Europe has to thank the irrationalism of its soul."

*To be continued*

# The Riemannian Economic Model: Part I

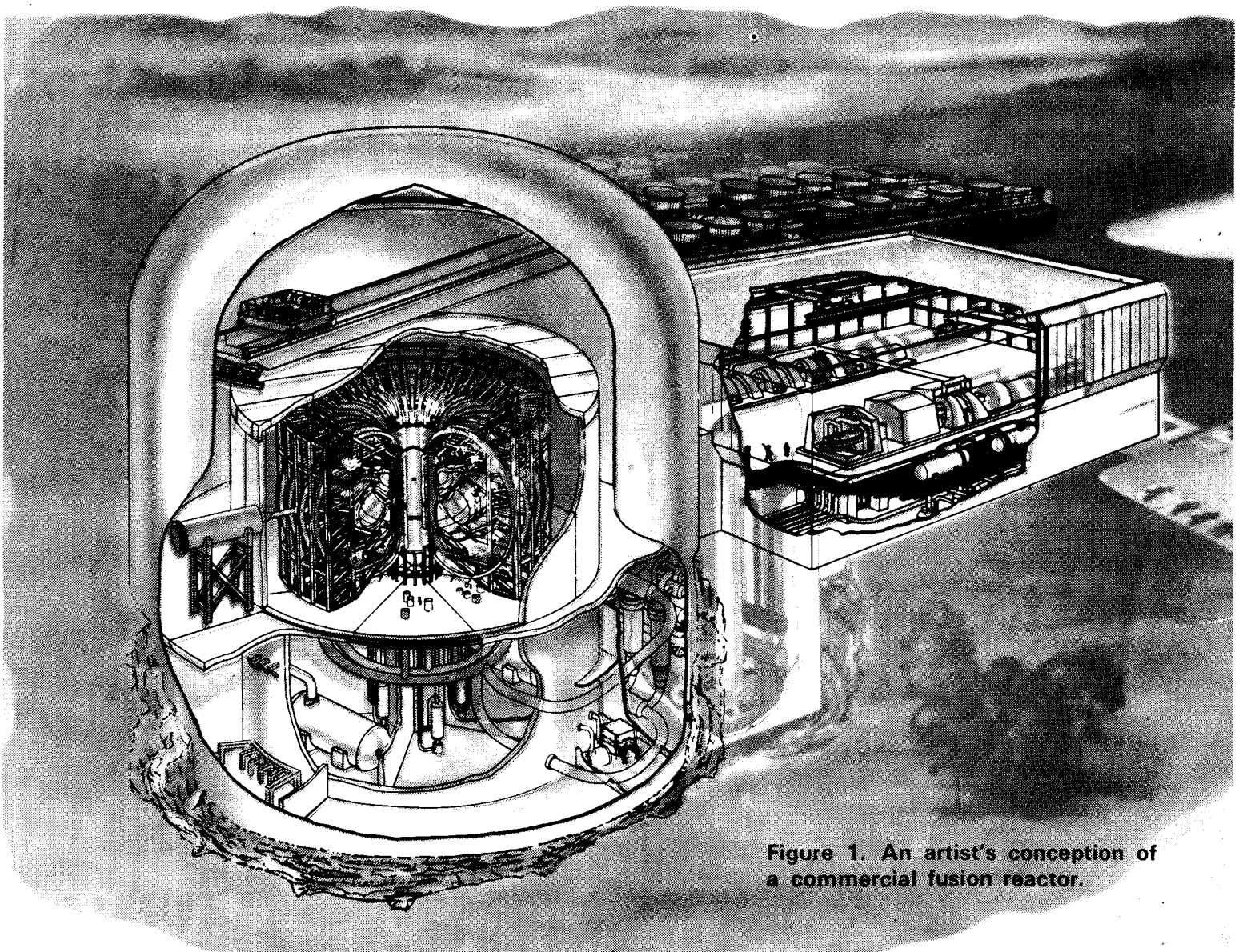


Figure 1. An artist's conception of a commercial fusion reactor.

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## Introduction

The *Executive Intelligence Review* has developed an econometric model, now in the advanced prototype stage, for computerized simulation of economic activity. In this week's issue, the *EIR* begins the presentation of a revolution in econometrics by printing the address of the Fusion Energy Foundation's Director of Research Dr. Uwe Parpart at the Executive Intelligence Review Seminar in Washington, D.C., last Jan. 31. A full discussion of the mathematics of the new econometric model will appear in Part II of the series.

Employing this model, the *EIR* will publish its own computer-generated indices of economic performance and potential at the beginning of this year's second quarter, as well as occasional computer simulations of regional and sectoral economic activity. Computer simulations of questions of interest to *EIR*'s clients may also be undertaken on a special contract basis. Work to date on historical data, including the effect of the 1973 oil and raw materials price increases on advanced and developing sector economies, indicates a high degree of predictive accuracy absent in existing economic models.

The authors of the model, Drs. Uwe Parpart and Steven Bardwell of the Fusion Energy Foundation, abandoned the now-discredited econometrics practice of attempting to forecast economic performance by applying correlations of historical data to standard definitions of GNP. In the accompanying speech, Dr. Parpart shows why econometrics has sunk to a credibility status not much better than astrology.

Instead, the model's authors, in cooperation with the *EIR*'s economics research staff, adopted the quantitative measures of economic activity proposed by U.S. Labor Party Chairman (and *EIR* Contributing Editor) Lyndon H. LaRouche, Jr., in his report, "The Theory of the New Monetary System," published as a special *EIR* supplement in October 1978. Instead of a *correlative* model, LaRouche proposed a *causal* analysis of the economy, identifying the ratios which define economic "free energy," or negentropy, to use the physics term. LaRouche proposed that negentropy is reflected in the rate at which the economy's tangible surplus product expands in excess of current consumption requirements of population and capital and raw material consumption requirements of industry. The increase in this ratio depends on the rate of introduction and successful absorption of new technologies, including the

rate of assimilation of scientific concepts among the economically active population.

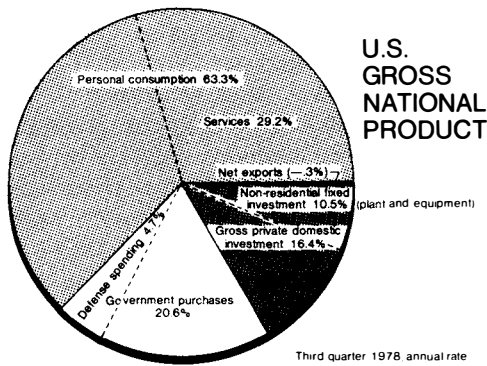
Parpart and Bardwell have expressed the ratios proposed by LaRouche in a series of partial differential equations susceptible to computer solution by iterative methods, in a procedure identical to those used to simulate thermodynamic and hydrodynamic problems in physics. The economics research staff of the *EIR* has assembled the first-generation data base for this model. What emerges is a causal model of the economy, quantifying the motion of the productive powers of labor through the "medium" of the productive capacities of the economy.

The first data runs through the system will include the American economy, the Japanese economy, the West German economy, and the linked relationships between these economies and developing-sector trading partners. The model is eminently suited — and data are now being gathered to make possible — a simulation of the global economy.

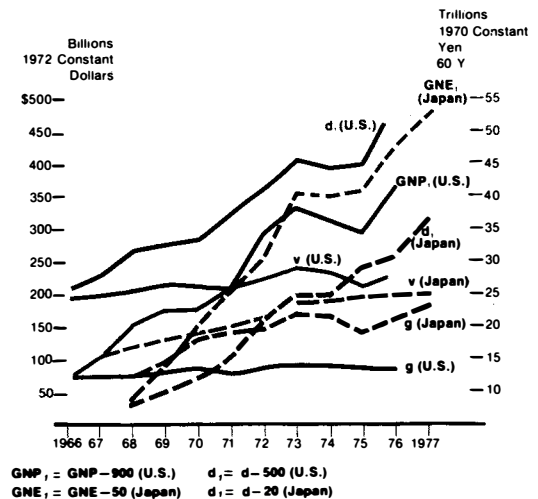
The advanced mathematics employed in the model — used hitherto only in simulation of complex physical systems — derive from the work of the nineteenth century German mathematician Bernhard Riemann. The term, "Riemannian," however, has much more than esoteric implications. Riemann's thrust was to build analysis around points of breakdown, or "discontinuity," in continuous functions — the points, in economics, at which the parameters of economic measurement change. New technologies, changing government policies, drastic changes in input prices such as the price of energy, and other features of recent experience are the developments which define economics today. No model based on correlations of historical data — that is, all existing econometrics models — can hope to analyze such developments, by definition. The mathematical analysis of the LaRouche ratios incorporated into the new "Riemannian" model, however, identifies such "singularities," or breakdown points in continuous functions, whenever economic events produce a change in economic parameters. Unlike other models, the *EIR*'s new effort can specify the conditions for either economic upsurge or economic breakdown, and — even more important — quantify the effects of economic choices available to governments and business.

— David Goldman  
Economics Editor

**Figure 2. U.S. Gross National Product**



**Figure 3. U.S./Japan**



## Why you can't trust the GNP

*Uwe Parpart, the director of research and development for the U.S. Labor Party, introduced the concept of a "Riemannian economic planning model" at a seminar on "Doing Business in 1979 — the European Monetary System and Mexican Oil." The conference, held in Washington, D.C. on Jan. 31, was sponsored by Executive Intelligence Review. Mr. Parpart's seminar presentation follows.*

The power plant of the future will be based on controlled nuclear fusion (figure 1). This device does not now exist, but it is one which will be providing us the bulk of power in the 21st century — if the scientific results achieved in the United States, Japan and the Soviet Union over the past year and a half are technologically realized.

Why do I begin my presentation with this bit of futurology? To emphasize the point that economic development, the fundamental questions concerning the national economy of any country, are definitively *not* concerned, in principle, with the categories usually presented by Department of Commerce statistics, Department of Treasury statistics, or anything of that sort.

When you look at the \$28 billion U.S. trade deficit for 1978, at the figures of unemployed, at the actual conditions of the cities in this country, then the basic problem to be addressed does not concern questions of growth rates in monetary terms, but questions of real economic product.

What I would like to present to you can be termed the Riemannian economic model, a concept relatively unknown to you.

Bernhard Riemann was the most important mathematical physicist of the 19th century, a man not generally known by economists or businessmen in this country or anywhere else. Nevertheless, the contributions that he made to mathematical physics in the 19th century are the bases of the economies that we now have in the advanced sector today. Without the work of Karl Friedrich Gauss, Riemann, Wilhelm Weber, possibly James Clerk Maxwell and others, we would not have the type of economy we now have.

Any attempt to understand how we can today put a man on the moon — that within 20 years we will be technologically capable of bringing the sun down to earth in the form of controlled thermonuclear fusion — any attempt to understand the real economy without the knowledge that it is fundamentally predicated on the rate of scientific progress, on the rate of introduction of



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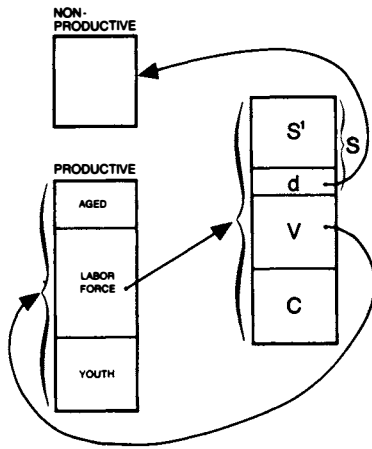


Figure 4. U.S. Capital Spending

	Capital Expenditures	Pollution Abatement Devices	Net Capital Spending	Net Capital Spending (in 1972 dollars)
1976	120.50	6.7	113.8	85.1
75	112.8	4.5	108.3	85.1
74	112.40	4.5	107.9	92.7
73	99.8	3.0	96.8	91.4
72	88.4	1.8	86.6	86.6
71	81.2	1.6	79.6	82.9
1970	79.7	0.8	78.9	86.4
69	75.6	0.8	74.8	86.2
68	67.8	0.7	67.1	81.2
67	65.5	0.7	64.8	82.0
1966	63.5	0.6	62.9	82.0

new technologies and on the rate of progress of the social productivity of the population based upon these scientific and technological advances, will produce an economic theory that is incapable of explaining what the world looks like, how the world works, why the world works in the way it does, or how the world will look in the future.

### The GNP fiction

Figure 2 should be more familiar to you. It is a quite ordinary pie, the U.S. Gross National Product for 1978, based on third quarter rates. Here, everything is thrown together into one big pie, which tells nothing about the real economy — or, at best, very, very little about it.

For example, the category termed "government purchases" makes up 20.6 percent of the total GNP. If there is any significant growth, as over the past decade, in that category and it is decided that this growth defines growth in the real economy, then a very fundamental mistake has been made. In fact, these government purchases, rather than contributing to economic growth, tend to do the exact opposite. They tend to function as taxes on the real productive economy.

Defense expenditures, which, for a variety of

reasons, may be regarded as necessary, certainly do not contribute anything to the productive throughput of the economy or to social productivity. This expenditure contributes to our defense and the money for defense spending exists by taxing productive economy.

To throw this tax into the GNP and then say, "our economy has grown because defense spending has grown," is total nonsense.

You can see this with regard to other government purchases and categories, for example, the social welfare categories. Again, they may be regarded as necessary and in many cases they are. However, they constitute a tax on the real economy and not a definition of what the real economy is.

How do you get from a Gross National Product way of looking at the economy in monetary terms to at least an approximation of how the real economy works?

One important indicator, though somewhat distorted, is gross investment as a share of GNP. This begins to give a sense of what is actually going on. The 1972-1975 figures are presented in the *CIA Handbook of Economic Statistics*. The figures for 1975-1978 are also available, but have not been printed in this *CIA Handbook*, perhaps because they are so devastating.

In the 1975-1978 figures, the United States percentage goes down to less than 12 percent. The USSR per-

**Figure 5. Material content of GNP in kg./cap.**

	North America	Western Europe	Japan	USSR	China	Southern Asia
Steel	504	400	912	217	92	9
Aluminum	18	9	9	2	0.5	0.2
Paper	234	98	120	13	19	2
Cement	305	495	587	187	95	41
Chemicals	426	236	365	49	26	7
Grain	915	355	155	525	253	240
<b>"Total mass" (kg/cap. y)</b>	<b>2402</b>	<b>1593</b>	<b>2148</b>	<b>993</b>	<b>485</b>	<b>299</b>
GNP (\$/cap. y)	7120	4645	4450	2550	380	210
Energy (kgoe/cap. y)	8144	3211	3035	4024	472	259
Population (10 <sup>6</sup> )	236	365	112	254	822	1002

centage goes up to about 30 percent. The West German percentage goes up to 31 percent. The Japanese percentage goes up to 39 percent. From these statistics, one can begin to see what is happening, because this represents the money, the surplus that the real economy produces, which is reinvested in something that produces real wealth.

But even this is problematical regarding the U.S. economy. It turns out that of the 12 percent over the past three years that was reinvested, a very significant percentage was put into such things as pollution control devices and various other kinds of gadgetry which do not make the economy more productive, but, in fact, less productive. If, for whatever reason, scrubbers are installed on a coal-fired plant, the plant is less productive. We could argue the desirability of scrubbers from an environmental standpoint, but the point here is that what is being included as a category for a productive economy is a category which is really a tax on productivity.

### **Categories of the real economy**

Figure 3 introduces certain categories which do not usually occur in economic statistics. There is a category

"C", a category "V", a category "d", and then the ordinary GNP.

The critical category for any economy is "C": capital investment in new plant and equipment. From that standpoint, what you can see is that between 1966 and 1977, the U.S. economy has been totally stagnant. On the other hand, when you look at the same category in the Japanese economy, you have a certain disruption, but there is a very significant and steady rise.

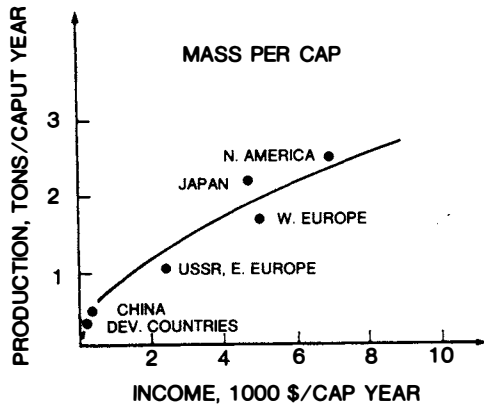
Another category, which is negatively significant, is the category "d" which measures all those expenditures within the total GNP laid out for such things as welfare, defense spending, services in the economy — any expenditure which is not directly related to the fundamental questions of productivity based on existing technologies of plant and equipment.

In the period during which the U.S. economy — in real productive terms — is stagnant, you have a dramatic rise in the category of "d." In fact, the entirety of the U.S. GNP rise in this period, in terms of its curve, follows precisely the shape of "d" — which is what you would expect because the category "C" is stagnant. Therefore if the GNP rises, which does in fact occur, it is based on the rise in "d."

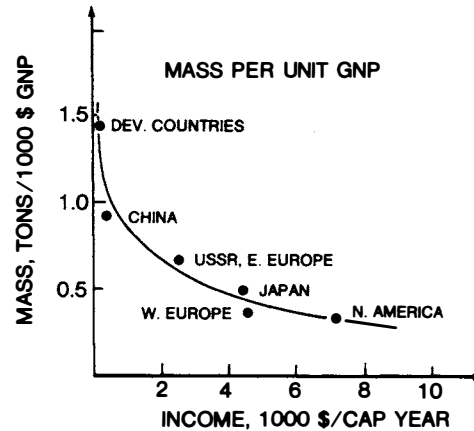
What does this mean? It means, in terms of productivity figures, what is already generally known to



**Figure 6. Mass per capita**



**Figure 7. Mass per unit GNP**



economists: that the productivity of the U.S. economy has been declining in a very dramatic fashion and that significant investment in new plant and equipment, "C," has not occurred.

In the Japanese economy, there exists a significant rise in "d," representing a similar type of problem: that the Japanese economy is also incurring a significant amount of expenditures in that category. However, since there is a simultaneous rise in the "C" category, one can offset the other. To the extent that that occurs, a healthy economy can be maintained, even though problems come up. And the Japanese economy, of course, has had a significant number of problems in the recent past.

As I mentioned before, the figures on pollution control devices will shock you (figure 4). Capital expenditures in the United States between 1966 and 1976 have gone up from \$63.5 billion to \$120 billion in 1976. The spending on pollution abatement devices has gone from \$.6 to \$6.7 billion. In other words, 5 percent of total capital expenditures in the U.S. economy went to this kind of nonsense, a very extraordinary fact. Capital expenditures are being taxed to the tune of 5 percent by such things as bigger and better filters on this, that, and the other thing.

Take an example: if you want to build a new chemical plant today, close to 25 percent of the total capital

outlay in the U.S. will be swallowed up simply by fire and pollution control costs, as required by the Environmental Protection Agency.

Figure 5 displays the "material contents" of the Gross National Product in kilograms per capita. For example, in North America, and primarily the United States, each person made a contribution to produce 500 kilograms of steel last year. In Western Europe, 400; in Japan, 900; and so forth. The "total mass" that North Americans were responsible for was 2,400 kilograms of diverse items; in the Western European economy, 1,500; Japan, 2,100, and so forth. There is a significant positive correlation between the GNP per capita, the standard of living in the country under examination, and the actual total mass produced.

The United States has the highest per capita standard of living and the highest total mass. There is also a significant correlation between total mass, GNP, and energy consumption per capita. In all three categories, the United States is the leading world economy. We are now beginning to get a sense of what has to be looked at in the real economy to understand what is going on.

When somebody says, "Let's save energy, let's import less energy to the U.S. That will help our economy" by reducing the negative surplus, he is talking nonsense. In fact, it may be very useful to import very large

**Figure 8. Typical composition of GNP**

	Country		
	Low-income	Middle-income	High-income
Per caput 1975\$/yr.	300	1700	4800
Population 10 <sup>6</sup>	2371	650	884
Agriculture %	40	12	3
Industry %	30	40	41
Transport %	5	5	6
Service %	25	43	50
Total %	100	100	100

amounts of energy if our social productivity is such that we can actually convert that energy through our productive mechanisms into exportable output valued higher than the energy imports. These things must be considered. We cannot ignore what these real economic categories are.

### Some comparisons

Figure 6 presents an interesting curve that again compares income per capita with production in kilograms. The results are what you would expect. The more you spend on your workforce and the higher standard of living, among other things, actually reflect a larger productivity of the workforce, the more output you get. There is a problem in this curve. It would be very nice if this were not a curve that was sloping downward, but a curve that goes up straight. The fact that this is not the case will cause some problems.

The mass per unit GNP is also interesting (figure 7). It turns out that in the richer and more developed countries the total mass tonnage per unit GNP is lower, which is expected. For example, in the developing countries, most of what is produced are large amounts of bulk, grain, and not many minicomputers, whereas in

North America, Japan, and so on, you have the inverse relationship.

The typical composition of GNP from the standpoint of the real economy (figure 8) shows that as you move from low income to middle income to high income economies, the percentage of agricultural production will decline dramatically, while the component of industry will go up significantly. Also rising significantly is the service category and that category defines a tax on the economy. I want to focus on the very significant decline in the percentage of agricultural production. The U.S. farmer, at this point, is capable of feeding 60 people in the United States. A Chinese farmer is capable of feeding himself and one other person. That gives you some idea of what productivity is really about.

The most revealing and interesting relationships that give us a better grip on how the real economy works are those between energy, population and GNP (figure 9). This is the consumption of energy in so-called hectajoules, or 10<sup>18</sup> joules. I've simply divided these numbers so you get the energy intensity, the energy per capita, and the actual GNP per capita. Here again, the United States has the highest per capita energy consumption by quite a margin. Next highest is the Soviet Union, with Europe and Japan somewhere in between.

However, an important factor now arises. The rela-

**Figure 9. Energy/GNP**

	Population (10 <sup>6</sup> )	Energy (EJ)	Energy/population	\$ GNP /cap.
N. America	236	80.5	0.3411	7120
W. Europe	365	50.3	0.138	4645
Japan	112	14.2	0.127	4450
USSR	254	59.6	0.235	2550
China	822	16.3	0.020	380
Asia (excl. China)	1002	10.9	0.011	210

Annotations: 2.5 (ratio of Energy/population for N. America vs W. Europe), 1.53 (ratio of \$ GNP /cap. for N. America vs W. Europe), 1.09 (ratio of Energy/population for W. Europe vs Japan), 1.75 (ratio of \$ GNP /cap. for W. Europe vs Japan), 6.35 (ratio of Energy/population for USSR vs China), 12.0 (ratio of \$ GNP /cap. for USSR vs China), x31 (ratio of Energy/population for Asia vs China), 33.9 (ratio of \$ GNP /cap. for Asia vs China).

relationship between the energy per capita and the actual GNP is distorted. In the United States, as compared to Western Europe, we consume 2.5 times the amount of energy per capita, but our GNP is only 1.53 times as high as in Western Europe. That means that, in one sense, the mode of energy consumption in the United States is less effective than in Western Europe. This is a very real problem. It takes twice as much energy in the United States to produce a ton of steel than it does in Japan. Why? Because the U.S. steel industry is hopelessly outmoded. The U.S. is operating with plant and equipment built in the 1920s. The Japanese steel industry, on the other hand, is based on primarily post-World War II categories of technology. If you compare Western Europe to Japan, you can see that those economies are very, very similar in GNP relationships, as well as in energy intensities. Their efficiencies are considerably higher than those in the United States.

Figure 10 displays something that's not altogether unexpected. On one axis are the number of tractors per thousand hectares and on the other, the cereal yield in tons per hectare. What you expect, in fact occurs. To a certain extent, the more tractors you put in use in the agricultural industry, the higher the per hectare yield. But you cannot turn your land into parking lots for tractors. The ratio cannot continue to rise indefinitely. In

fact, Holland and Denmark are probably already overdoing it: twice as many tractors in Holland to produce a cereal yield which is not twice as high as in North America. So there are certain diminishing returns on your investment in this case.

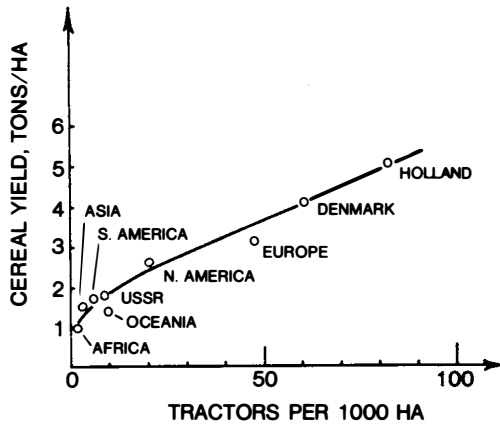
The same problem is encountered in cereal yield versus nitrogen fertilizer per hectare (figure 11). Again, the more fertilizer you put in, the better the cereal yield per hectare. But, again, there is a limit to how much nitrogen fertilizer can be put into the soil before it is ruined. These problems are very significant.

Ideally, if we dump more in, then the productivity of the soil, or generally speaking, the productivity of the industry would appear to rise in a linear fashion. But that does not occur.

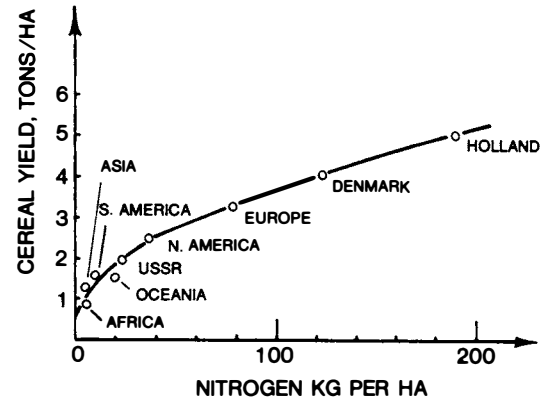
### The solution to resource depletion

We are never going to be able to run an economy on the basis of the existing technology base. We cannot afford to stagnate with regard to production within the same technology framework. If we do, then we will encounter precisely these kinds of problems. We may be able to increase our productivity, but we will not be able to deal with any long-term problem. In fact, there is a very high sensitivity of the economy to significant price increases

**Figure 10. Cereal yield and tractor density**



**Figure 11. Cereal yield and fertilizer yield**



for agricultural production — if you increase your fertilizer input by a given amount.

The general point here is very simple. It is the problem of resource depletion (figure 12). First of all, there is the idea that somehow the earth has limited resources for human existence. Based on that, there are all kinds of strange ideas concerning zero growth and even the necessity of negative growth rates for population, consumption, and so on. That's a lot of bunk.

Contrary to what you may believe, it is not true that we have finite resources. So you say, "Well, isn't it the case that there's only so much iron in the ground? Or, isn't it the case that there's only so much oil in the ground?" There is a certain amount of truth to that but it is not significant.

What primarily concerns us for the economy and the productivity of the economy—not just in the short run, but in the long term — is at what price can we introduce the necessary raw materials into the economy.

Take uranium for example. Some say if we keep operating light water reactors at the present rate, we will run out of uranium before the year 2000. That is not true. What we will run out of is uranium *at the present price* and we will probably run out of that much earlier. There is plenty of uranium but it would cost a lot of money to extract it. Nevertheless, if we are willing to pay the price for it, then we can do it.

For any resource, if that resource is at all significant, it will at first deplete slowly. As time goes on, depletion becomes more rapid. At the same time, the depletion costs go up. Oil in the United States in the 1890s was a very different story than it is today. This is a situation where cost rises very slowly, but as there is more need to drill deeper wells, the depletion costs go up.

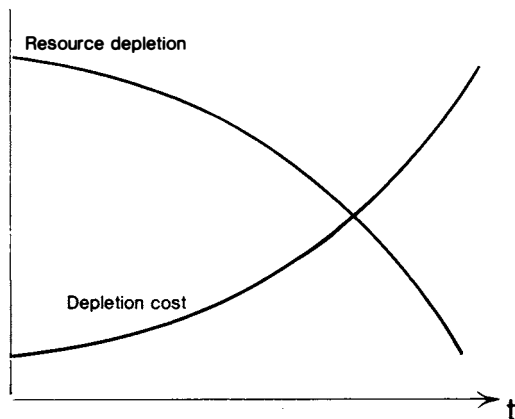
This is the real problem that we face: at what price do we introduce raw materials into the economy? The lower the price, the better, because then productivity will not be hindered. If, per chance, it is necessary to introduce resources at a higher price, then technology has to develop even more rapidly to squeeze as much out of it as we conceivably can.

The basic lesson is this: there is not even a possibility of a resource crisis for mankind. The only possible crisis you can actually encounter in the long term is the crisis of the human mind, a situation in which man is not capable of coming up with the technological solutions in time to deal with relatively limited resources within a given range of social price of production for that resource.

### Planning the world economy

This is the fundamental reality of economic planning. If, in the 19th century and well ahead of the depletion of re-

**Figure 12. Resource depletion**



sources for coal-powered steam engines, the technologies based on the theory of electromagnetism had not been introduced, we would today not be capable of supporting populations at the standard of living that we are now capable of supporting. We would not be in a position to sustain the kind of economic development that we have had.

In terms of social productivity, the basic question is never one of resources, but of combining a skilled population with a technology base to stay ahead of the problem of resource exhaustion. We must introduce new technologies long before the actual scissors problem (as we know exists now) arises for us.

From the standpoint of technology, I think this is clear. What people do not generally consider is the extraordinarily important cultural component involved. If we permit 50 percent of our high school youth to be on drugs, if we permit the educational system to remain in a state of ever-more rapid decay, and if we permit a situation where the cultural level of the population is no longer capable of producing a scientist who is going to produce the results to improve our technology base successively, then we're killing ourselves. We are destroying ourselves.

The lesson of the European Monetary System is that we are now at a point in human history where these problems have to be squarely faced. We have to face up

to the fact that the destruction of the creative potential of the population, which has a material base in such things as GNP categories, cannot be permitted any longer. It is necessary to bring up the overall level of productivity of the world population, at least into a general region of significance comparable to the advanced sector.

If that does not occur, then we are not going to exist in the next century. We will have 7 billion people by the year 2000. We will have somewhere around 10 billion people by the year 2050. There is no way we can come up with the resources to support that number on the present technology base, absolutely no way. We have to train a world population, create the technology base, create the scientific breakthroughs that allow us to progress the way we have to. If we permit our children to be brought up by rock music and on drugs instead of with science and the cultured music of Beethoven and Mozart, we are killing ourselves.

That is a very fundamental point. History has taught us this. To the extent that this fundamental principle is the characteristic of the advanced sector, we have no problem with Third World development.

There is the usual answer: "Well, Third World development on that basis has failed. We need appropriate technologies. We need better picks and shovels. We don't need nuclear reactors in the Third World sector."

The actual historical examples that best teach us are the historical example of the United States, of the Soviet Union, of Korea in the postwar period. All were underdeveloped economies at one point and did not base their development on "appropriate technologies." It is not true that somebody told the Koreans, "you cannot build this. You first have to learn to use a better pick and shovel."

What happened was a certain amount of United States input, a certain amount of Japanese input, and a modern economy was built from the ground up. And it is functioning as one of the highest growth economies in the world today.

Why should that not be possible elsewhere? Why should that not be possible in Africa, in South America? Why should that not be possible in Mexico? It is, and it will happen. That is the purpose of the European Monetary System.

The economic planning model, or any way of looking at the world economy that starts with fictitious GNP categories instead of the categories of real economy is going to ignore that basic point.

*to be continued*

# WORLD TRADE REVIEW

## New trade deals

PRINCIPALS	PROJECT/NATURE	COST	FINANCING	STATUS
Japan/Zambia	Zambia to purchase railway wagons, trucks, and chemical fertilizers	\$16 mn	Loan through Japanese Overseas Economic Cooperation Fund — 25 yrs, 4 percent	III
USSR/India	Soviet proposal to export additional 500,000 tons crude oil and exploration and production assistance to India in exchange for wheat	U	U	V
West Germany/ Brazil	Krupp-Koppers Co. and Petrobras with private firms agree to build coal gasification plant in Brazil	\$200 mn	NAv	II
Brazil/Nigeria	comprehensive five-year trade and cooperation pact to include port improvement, agriculture, urban development, and technology	\$3 bn	U	IV
International Development Agency/Tanzania	maintenance and improvement of North and West high-ways	\$20 mn	loan, 50 yrs. 10 yrs grace	II
EEC/West Africa	three part grant: 1) buildings and equipment for three general education colleges in Niger 2) Equipment for 6 colleges of industrial technology, 57 rural craft and 35 domestic science shools in Cameroon 3) Construct 50 wells in Guinea Bissau	\$2.7 mn	grant	II
France/Guyana	COGEMA, French nuclear consortium, to explore and develop extraction of uranium	\$3.2 mn	U	IV

**Abbreviations:**  
 U = Undetermined  
 NAp = Not applicable  
 NAv = Not available

**\*Status:**  
 I = signed, work in progress  
 II = signed, contracts issued  
 III = deal signed  
 IV = in negotiation  
 V = preliminary talks

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# Gold London afternoon fixing



# The Dollar In deutschemarks. New York closing

