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To Our Readers

The unprecedented success of the Executive Intelligence Review's claim to have established a decisive competitive advantage over every other existing publication — government or private — in the exceptionally sensitive information industry, requires a word of explanation from its admittedly controversial publishers.

This explanation therefore strives to answer the question often asked by corporate and government-service clients of the Executive Intelligence Review, namely: "Why do I, as a businessman, government official, etc., need to rely on the published product of an avowedly Marxist enterprise?" The fact that such a reliance has been proven to be established by the market performance of the Executive Intelligence Review to date, itself signifies that the question merits an answer for reasons more important than mere curiosity.

There are two interconnected reasons for which avowedly capitalist corporate managers have repeatedly appreciated the intelligence services supplied by the avowedly Marxist Executive Intelligence Review.

First, our superiority over our competitors, both in government and the private sector, in the information field, occurs in matters of method, particularly method of intelligence evaluations. The implications of our methodological commitments for the client-executive who wishes to purchase a reliable intelligence report, are twofold. One, in our ability to single out unique special features in world developments which, months later, become leading features that dominate subsequent political, economic, financial and technological trends. Our established track record includes such "success stories" as our consistent lead over every one of our competitors in the analysis, evaluation and publication of events leading to the OPEC-led onslaught against the energy and financial empire of the Rockefeller coalition; the emergence of the European-Arab axis; the Soviet and West European commitment to the development of fusion power and related technologies; the establishment of the Warsaw Pact's decisive marginal strategic advantage over NATO strategic forces; the concerted drive of West Europeans, Non-aligned nations and others to replace the Bretton Woods system with a gold-based world monetary arrangement; and so forth.

Equally decisive for the corporate executive who relies on our intelligence product is our commitment to differ with our competitors in the presentation and packaging of this product. Our editorial policy is founded on the proposition that the informed executive will be unable to form competent policy judgments unless he is presented with the *entirety* of the world picture into which his particular corporate jigsaw puzzle must be fitted. Hence our deliberate decision to present, each week, a synthesized total world picture within which our client will also be able to find every significant intelligence item pertaining to his special area of concern and responsibility. He thus has the option of weighing the import of such specialized intelligence items against the global frame.

The second reason for our superiority over our competitors is the fact that the Executive Intelligence Review relies on the services of uniquely qualified vendors. They are the Intelligence Department of the U.S. Labor Party, the Fusion Energy Foundation, the amassed expertise of the Labor Party's Legal Department. The Executive Intelligence Review also reflects the added advantages of insight gained through the USLP's political activities and relations with every social and political group of any consequence in this country and abroad. Such groups and entities are going to be playing an increasingly decisive role in the emerging new world economic order, and our established relations with them give us a decided advantage over every one of our competitors in this key business area.

Finally, the editors of NSIPS fully share the USLP's fundamental political proposition that the *capitalist* necessity of maximizing rates of capital formation can only be realized by means of a *socialist* theoretical solution to the problems of accumulation imposed on the economy by the monetarist faction. Hence our commitment to making available to the industrial executive, the engineering specialist and the concerned official the quality of political and business intelligence enjoyed by the U.S. Labor Party leadership itself.



Nancy Spannaus
Editor-in-Chief

**IN THIS WEEKS
EXECUTIVE INTELLIGENCE REVIEW**

No matter what the plans of the Carter Administration, European governments are bent on increasing industrial production and trade to revive their flagging economies. That's what's behind Italy's decision to upvalue its gold reserves at the expense of the dollar, reviewed in this week's **International Report**....

* * *

Chances for a durable peace appear to be slipping away in the **Middle East**. A new war between Chile and Peru could break out in **Latin America**. In **Asia**, a new government is pushing hard for the rearmament of Japan.

* * *

With the world situation heating up, a major reorganization of U.S. defense and intelligence agencies is already underway. To find out why, read this week's **National Report**.

* * *

Currently one of the hottest debates in Western Europe is being waged over the issue of continued development of nuclear power. In this week's **Energy** report is a complete rundown on the major European fission and fusion programs, together with the evidence that shows why Europe is unlikely to call a halt to nuclear development....

A scientific breakthrough with revolutionary implications for the development of fusion is described in our **Science and Technology** section.

* * *

Is the human intellect with its capacity to make such scientific innovations, the irreplaceable "natural resource"? This week's **International Report** also supplies a shocking who's who of "population control" institutions so committed to "conserving natural resources" they are carrying out mass murder.

And its no mere matter of "human rights." This week's **Military Strategy** section, which analyzes the front-page controversy over the U.S. National Intelligence Estimate of USSR warfighting capability explains why such policies may well lead to a general war.

* * *

A matter of opinion? Not in the least. The **European Economic Survey**, a new service to our subscribers, provides a detailed, country-by-country picture of continental business conditions and trends in 1976 — showing the Europeans have no other way out. (Future issues of the **Executive Intelligence Review** will offer comparable surveys of the major sectors of the world economy.)

In depth coverage of the **Gold and Foreign Exchange** markets, as well as an analysis of the U.S. **Business Outlook** under Carter's recently announced economic program, is contained in our regular weekly **Economics** report.

* * *

To the reader of this week's special report on China, the Chinese will no longer seem inscrutable. Our exclusive report identifies exactly who is running the world's most populous country since Mao died: their names, their careers, their policies.

* * *

Elsewhere in this issue:
Will the Washington Post be "Watergated" (see **Press**)

What's at stake in one of the most remarkable lawsuits ever filed — an attempt to permanently ban publicaion of this news service. (see **Law**).
Is Cyprus Vance up to his old tricks? (see **Middle East**)

What the USSR thinks of Jimmy Carter's friends. (see **Soviets**)

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TABLE OF CONTENTS

INTERNATIONAL REPORT	SOVIETS
3 Europe Takes Steps To Break From Dollar	39 Soviet Expose Carter Trilateral Connection
4 Behind U.S. Triage Against The Third World	
NATIONAL REPORT	MILITARY STRATEGY
9 Carter Brings "Death Squad" Into Gov't	41 Behind Strategic Conflicts: War Buildup
10 Carter Won't Have Smooth Sailing In Congress	43 The Press Reports The 'Team B' Flap
ECONOMICS	MIDEAST
12 Foreign Exchange	45 Terror Scandals Endanger Peace Chances
13 International Stocks	47 Tensions Rise In Aegan, Vance Implicated
14 Gold	AFRICA
16 Business Outlook	50 Pave Way For War In Africa
18 Steel	ASIA
MONTHLY ECONOMIC ANALYSIS	51 Who Rules The New China
20 West Europe Undertakes Expanded Trade	57 Two Weeks Under Fukuda
21 — W. Germany	
24 — Italy	LATIN AMERICA
27 — Britain	59 On Brink Of Second "War of Pacific"
29 — France	60 Venezuela The Key To L.A. Future
ENERGY	63 Jamaica Will Not Devalue Currency
32 The European Commitment To Nuclear Power	LAW
33 Scientists Press End To Fusion Blockade	64 'Right To Know' At Stake In UAW Case
SCIENCE AND TECHNOLOGY	PRESS
35 U.S. Labor Party Issues Energy Program	63 Behind The Bylines
35 "Tomorrow Is Knocking"	
36 Breakthrough In Understanding Plasma Structures	

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Europe Takes Steps to Cut Loose from Dollar

Measures undertaken by the central banks of the Federal Republic of Germany and Italy at year's end have brought Western Europe one step closer to a final, official break with the U.S. dollar as an international reserve currency. Pending the completion of a series of Italian diplomatic talks in the Third World, OPEC capitals, Western Europe and Moscow, by mid-February a new international monetary system based on the Soviet Union's transferable ruble and gold will be in use as a strong competitor to the moribund U.S. dollar.

On Jan. 2, the West German Bundesbank revealed that it had unilaterally devalued its accumulated, year-end dollar holdings by 11 per cent or 6 billion deutsche marks. With this move, West German financial officials have broken with their traditional policy of supporting the dollar at parity, and instead, will now let the dollar collapse.

The Bundesbank decision follows by a matter of days the Dec. 29 announcement of the Italian Central Bank of a four-fold revaluation of Italy's substantial gold reserves, legislating thereby an increase in their total foreign reserve position by \$10 billion. This decision, formulated by the Federal Cabinet under Prime Minister Andreotti, frees Italy overnight from its proverbial role as "the sick man of Europe."

The gold revaluation also brings Italy to the brink of an official debt moratorium; the Italians also noted they would push for a stable world gold price, the basis for a gold monetary system. Responsible officials from Banca Commerciale Italiana and Credito Italiano have stated that Italy will indeed make this debt moratorium official, once a new international monetary system has been put into place.

Rejection of Fed Appeals

The West German decision aggressively rejects the continuous appeals from the Federal Reserve in Washington that the Bundesbank ease interest lending rates and permit stimulation of the West German economy. The same day the Bundesbank issued its policy, a Federal Reserve official in New York lamented: "Nothing short of a public policy statement from the Bundesbank that they intend to support the dollar will reverse the dollar decline..."

Bundesbank directors Klasen and Emminger were directed to stop intervening on behalf of the dollar by Federal Chancellor Schmidt. The Schmidt government,

nominally a Social Democratic-Free Democratic coalition, is maintained in power by cross-party, industry and trade union groupings which have rallied behind Europeanist efforts to create a genuine upswing in industrial output and employment levels in 1977.

Italian Special Funds

In tandem with the gold revaluation, the Italian cabinet is creating four special funds to promote trade, industrial growth, and currency stability. The largest fund, \$6 billion, is being set aside to finance foreign trade with developing countries and the Comecon states. Another \$400 million will be slated for investments in Italy's politically pivotal nationalized industries. A third will provide for compensations in potentially fluctuating gold prices.

A final fund, according to *Corriere della Sera*, will finance "future losses on foreign loans," a provision which feeds rumors that Italy will soon be granting moratoria to its foreign, mostly Third World debtors; negotiations are now underway with Yugoslavia.

Italian state-sector corporations have been European leaders in revolutionizing trade financing systems and concepts. In these efforts, the Libyan government, and the Soviet Union have been close collaborators in resituating Italy as a center for European and Mediterranean trade.

Presently under negotiation are a series of state-to-state agreements between the ENI state-controlled petroleum interests and Arab producers to guarantee Italy's petroleum needs around long-term trade and financing agreements which include the Soviet Union. The deals, once in effect, would reduce the leading multinational producers to the position previously held by small independents in Italy.

On Dec. 29, Foreign Trade Minister Rinaldo Ossola and ENI representatives began talks with Saudi Arabian government officials to promote Saudi purchase of Exxon and Mobil operations in Italy. According to the Dec. 31 *Journal of Commerce*, in return, the Saudis would guarantee 27 million tons of oil exports yearly to Italian ports.

Coupled with a recently signed accord between ENI and the Iranian National Oil Company (NIOC), the Italians would have succeeded in assuring 90 per cent, or 84 million tons of their crude oil consumption. ENI and NIOC have agreed to form a joint holding company, with

equally divided total ownership, to run the entirety of ENI's refining and distribution facilities in Italy and abroad. The Iranians will inject \$100 million into the ENI interests, and supply 4-5 million tons in crude. Later this month, ENI president Sette is scheduled to go to Iran to work out a barter repayment for these investments and supplies in the form of industrial products.

Diplomatic Initiative

These types of trade agreements — which have come to dominate Italy's trade activity — and the related financial shifts do not yet constitute a workable monetary system. In December, the Soviet Union announced that the transferable ruble (used for intra-Comecon trade financing) would be available internationally to finance all import and export activity with Comecon and that participating nations would be allowed to accrue T-ruble balances. Based on a formal treaty arrangement, the T-ruble would exponentially expand the liquid assets of a gold-based monetary system, and far outstrip the dollar as a stable trading currency.

A major step in formalizing this new monetary system

is expected to come from the Jan. 10 visit of Italian Foreign Minister Forlani to Moscow. Highly placed Italian industry circles are expecting Forlani to "institutionalize" the triangular alliance of Italy, the Soviet Union and Libya. Prime Minister Andreotti is taking a highly publicized visit to Libya next month, to emphasize the special relationship between the two countries made evident by the ground-breaking FIAT-Libya deal.

Simultaneously, Foreign Trade Minister Rinaldo Ossola is presently on a world tour which is taking him to Latin America, Nigeria, Saudi Arabia, the Indian subcontinent and finally, Moscow in February.

Reflecting the coordination of a European front prepared to break with the Carter Administration both politically and economically, British Prime Minister Callaghan is coming to Washington in mid-February to meet with Jimmy Carter, after pre-announcing that he is acting as a spokesman for the European Economic Community. Preparatory to Callaghan's arrival, Italian Prime Minister Andreotti will be in Bonn on Jan. 17, following which Chancellor Helmut Schmidt will confer with Callaghan in London.

How the U.S. Gov't Illegally Adopted a Triage Policy Against the Third World

Exclusive to NSIPS

The United States government has illegally adopted a policy of "triage" toward the Third World behind the backs of most members of Congress and the entirety of the U.S. population. According to a high official in the Agency for International Development's Office of Population, AID has "recently begun to implement" the triage policy of "Population Growth Impact" which ties all U.S. development aid to "population control" in recipient Third World countries. "This implementation is occurring *before* Congress reviews and votes on the AID-proposed Section 117 of the 1978 Foreign Assistance Act," the official explained, "because it is the only sensible thing AID can do to halt the population explosion."

AID's "Population Growth Impact" — commonly known as the "population impact examination" (PIE) policy — was designed by a Task Force created by the Under-Secretaries Committee of the National Security Council, and submitted to President Ford in a top secret report written primarily by AID officials and the special Assistant to Secretary of State Kissinger, Marshall Green. The PIE policy authorizes AID to:

* examine the impact of all U.S. development assistance "programs, projects and activities" on population growth; and

* design such "programs, projects and activities" to reduce population growth and maximize the benefits of planned family size.

"President Ford did not act on the National Security Council Task Force's recommendations," the AID official commented, "but we think the Carter Administration will react favorably. Therefore," the official continued, "the National Security Council directed AID to complement PIE in selected areas including Pakistan and the African Sahel before gaining Congressional and official Administration approval."

The AID official is also confident that Congress will pass the proposed legislation, saying that while Congressional approval is not a determining factor it will give the policy "that much more clout." "The AID-proposal has already been introduced by Senator John Sparkman (Chairman of the Senate Foreign Relations Committee) and will be formally considered in hearings by the Senate Foreign Relations Committee and the House International Relations Committee in late winter or spring of this year," he said.

New York City Congressman James Scheuer has introduced a resolution for a Select Committee on Population which will "help AID's cause," he said. "Scheuer has gone much further in his public proposals than anyone here would dare," he added, referring to

Scheuer's advocacy of compulsory sterilization against developing sector populations. He indicated that heavy support for PIE is coming from the World Bank, which he said is "considering adopting the same policy" for its loans.

AID's triage policies are viewed favorably by the State Department, National Security Council and in government and leading Rockefeller-controlled think tanks. Of more than 50 leading officials contacted by Zero Population Growth — itself one of the prime lobbyists for PIE — at such agencies as the State Department, the General Accounting Office, the Office of Management and Budget, the United Nations, the Rockefeller Foundation, the Ford Foundation, the Population Council, the Overseas Development Council, most expressed support.

The Population Nexus

Support for PIE is not surprising, for such organizations as the Ford and Rockefeller Foundations and the Population Council have been developing the tools of "scientific triage" for over 20 years. According to a former research assistant for the Population Council, the Population Council, set up in 1952 at the personal initiative of John D. Rockefeller III who has been its chairman ever since, has directed with the Ford and Rockefeller Foundation leadership the use of mass contraceptive and sterilization techniques which left untold numbers of Africans and Asians either maimed or murdered.

The Population Council promotes techniques which were described by the former researcher and include:

- * Large doses of estrogen in the food of various African tribal populations, resulting in side effects which range from "headaches to death-inducing hemorrhaging;"

- * Third World inhabitants' use to "test out new modes of contraception," including the admittedly dangerous "once a month" pill and various forms of IUD;

- * Population Council anthropologists, sociologists, and psychologists master the African tribal folklore in order to "humanely manipulate" population growth. One study manipulated ritualistic migration patterns of several tribes leading them to migrate into the Sahel at the height of the drought.

- * Trinkets and material objects of various sorts including money, were used to bribe natives into sterilization camps. In India, a scandal erupted when it was learned that transistor radios given as "prizes" were being "recycled" — 10 times as many vasectomies were performed as there were radios distributed: nurses were under orders to take the radios away after the operation.

The Agency for International Development has served as the main supplier of contraceptives and surgical equipment for vasectomies, etc., funneling these through the Population Council and similar groups, particularly their satellite centers in the developing sector nations. As the nation's population control experts see it, AID is in a unique position to take the next step, implementing triage on a mass scale with government backing. A longtime tool of "carrot and stick" foreign policy, AID is a natural candidate for the job. AID, which is a post-war spin off of the Marshall Plan, is simply one arm of a

tightly coordinated nexus of government and extra-governmental agencies governed by the National Security Council, the Trilateral Commission, World Bank, Ford and Rockefeller Foundations, Brookings Institution and Rand Corporation. The fine points of population control are worked out at a lower level by such think tanks as the Population Council, Club of Rome, United Nations Association, World Watch Institute, and Zero Population Growth.

These population think tanks receive research and training input from a dozen, foundation-funded population centers located at leading U.S. universities including Rockefeller University, the University of Michigan Population Center, University of North Carolina Population Center, and others.

Besides AID, other U.S. government agencies dealing with population control include: the Immigration and Naturalization Service, the Government Accounting Office, the State Department at large, the National Institute of Health and other divisions within the Health, Education and Welfare Department.

Various United Nations bodies, particularly the U.N. Population Commission, but including the International Labor Organization and Food and Agriculture Organization, fund and implement population control projects.

At the field level, Third World Centers — most of which were set up and are still controlled by the Foundations and the various population groups — implement population control. Personnel from these Centers like the Ford Foundation's Institute of Rural Health and Family Planning in India, or the Peruvian Center of Studies of Population and Development, shuttle back and forth between their homeland and the various U.S. population organizations. The U.S. university centers play a key role in providing training and technical support.

A brief survey of the leading population control organizations — based on material obtained through interviews and the organization's own written record — demonstrates the interlocking nature of this anti-population network, both in personnel and in goals. First, there is no question that population control is a Rockefeller Family inspired project: a member of the family or a close associate (generally recycled from either the Rockefeller Foundation or the Population Council) is found on nearly every governing board of each organization. Secondly, all of these organizations are explicitly "Malthusian" in outlook, adhering to the notion of absolutely finite resources. Zero population growth translates into zero economic growth and its corollary, deindustrialization. Each group favors replacing capital-intensive industry with labor-intensive ditchdigging.

The Foundations

While upwards of probably 100 foundations fund population control, the Ford and Rockefeller Foundations are in a class by themselves. The population control movement has remained in their control since its turn of the century beginnings.

In 1975 the Ford Foundation spent nearly a quarter of its budget — over \$54 million — on population control. In

a recently published pamphlet, *Understanding Population*, the Ford Foundation described itself as the center of "a vital web" dedicated to "restoring" the "zero growth rate" which existed for "just about all of mankind's history, right up to the beginning of modern times." "The long-term maintainance of a birth rate much greater than the death rate "is impossible," the pamphlet states. To this end, the Ford Foundation is the primary funder of about 14 U.S. university-based and 26 Third World-based Centers for Research and Training on World Population Problems. These Centers are described as a "primary training ground for family-planning officials, research workers, population policy analysts, and teachers of demography throughout the world." These Centers are particularly engaged in profiling the cultural folklore and migration patterns of Third World nations in order to manipulate reluctant natives into accepting population reduction.

The Ford Foundation has on its Board of Trustees such leading Rockefeller family associates as McGeorge Bundy (President); World Bank head, Robert McNamara; and David E. Bell (Executive Vice President). According to its Annual Report it is also involved in "reproductive biology experiments," funding major research centers both here and abroad to study such "important new contraceptives" as "secretions of sex hormones, and the action of chemical-releasing IUDs." The Foundation's latest Annual Report indicated that funding will be mainly concentrated in foreign centers.

The Rockefeller Foundation runs a program quite similar to Ford's but on a smaller scale because of its smaller overall budget. In particular, the Foundation was key in initiating a joint Ford and Rockefeller Foundation "Research Program on Population and Development Policy." Rockefeller and Ford Foundation Field Offices in Asia, Latin America, the Middle East and Africa coordinate this research program, which in the past has studied such areas as "relation between population variables and social, cultural and economic incentives and disincentives," and "child-labor contributions to family income."

The Population Council

The Population Council was founded in 1952 by John D. Rockefeller III. In a 1965 pamphlet on the Council's history, "The Population Council: 1952-1964," John D. Rockefeller wrote in its forward: "Twelve years ago, the terrifying task of controlling nuclear weapons ranked first among the challenges facing mankind. Today, in my judgment, no problem is more urgently important to the well-being and happiness of mankind than the limitation of population growth." According to the Population Council's 1975 Annual Report, its leading funders are the Rockefeller and Ford Foundations, the Agency for International Development, the National Institute of Health, the United Nations Fund for Population Activities and John D. Rockefeller III himself. The report says that they spent nearly \$10 million for research conducted at New York City's Rockefeller University and for field grants received by universities and special institutes scattered throughout Africa, Latin America, and Asia, particularly India.

A current Population Council staff associate told a reporter that the Council's work is tightly integrated with similar work being conducted by other leading population think tanks, leading universities and foundations, particularly the Ford and Rockefeller Foundations. "They are all part of a tightly coordinated population nexus."

The Council's leading periodical, *The Population and Development Review*, is thoroughly candid about its adherence to genocide. An exemplary article written by Demographic Division Staff Associate Geoffrey McNicoll in the September 1975 issue of the journal explicitly calls for population control through the fostering of tribal warfare.

McNicoll's article, "Community-Level Population Policy: An Exploration," profiles the ideological controls used in China and Japan as they relate "to enhancing productivity increases and population stabilization" throughout the Third World. McNicoll's prescription for achieving what he calls the necessary "community solidarity" is tribal warfare. He specifically calls for the "erosion of the economic role of alliances such as large kin groups that extend over villages boundaries and compete with village economy." Each village should become a self-contained and self-accountable entity with competition shifted "from within to between communities." "A community would admit new entrants to the extent that this appeared to be in its interests," he writes. Population increase can be curtailed by "encouraging local sanctions against...creating new households." He admits that a "certain muscularity" may be needed in the "restructuring of incentives," and says these "adverse environmental externalities" can be contained by "direct government intervention," one new incentive being "public works."

This undisguised plea for fascist techniques is even more evident in "An Occasional Paper of the Population Council" by Columbia University's David Friedman entitled "Laissez-Faire in Population: The Least Bad Solution." Here Friedman puts forward the advanced-sector complement to McNicoll's Third World triage policy. After arguing that Garrett Hardin's "life-boat ethic" is unnecessary, Friedman substitutes his own triage ethic based upon the Malthusian idea that "there is a natural limit to the size of the herd" or the human population. Friedman calls for the abolition of all "externalities" that impede this "natural law." Specifically, he calls for the elimination of "all subsidies to childbearing," particularly education and welfare, so that parents "bear the costs of their own decisions" to have children.

The Population Crisis Committee

The Population Crisis Committee is a Rockefeller spin-off organization set up in the early 1960s by former New York Senator Kenneth Keating (who had lost his seat to Robert Kennedy). It was taken over in 1965 by Gen. William Draper, former Undersecretary of the Army who, according to Ramparts Magazine writer Steve Weissman, is "best remembered as the American government official who most helped Nazi and Zaibatsu industrialists re-construct their power after WWII."

Draper (since deceased) turned the Committee into a powerful lobbying group, arranging briefings on latest birth control methods for the State Department, and drafting crucial pieces of population legislation, including Sen. J. William Fulbright's bill to appropriate \$150 million over three years for family planning abroad, and Sen. Joseph Tydings' bill to appropriate \$230 million over five years for domestic family planning.

The PCC, which "seeks to stimulate public awareness, understanding and action in the face of the greatest population increase mankind has ever experienced," is funded directly by the Rockefeller Foundation. Its National Chairman, former AID Administrator William Gaud, is joined by a large number of Rockefeller-men on its Board of Directors including Dr. J. George Harrar, former President of the Rockefeller Foundation; Dr. Norman Borlaug, the Rockefeller's "Green Revolution" expert; Richard Gardner; Steward Mott and a sizeable number of "cold-war" Generals including Maxwell Taylor (one of the architects of Vietnam and the Cuban Missile Crisis); William Westmoreland (who oversaw the Vietnam atrocities) and Elsworth Bunker. Two Congressional Black Caucus members, Rep. John Conyers (D-Mich.) and Rep. Yvonne Brahmwaite Burke (D-Cal.) are also Board members.

The Population Institute

The Population Institute (PI) is one of the newest additions to the population-control network set up in 1969 with Ford Foundation money. Along with general educational work, its main focus is to influence the media, particularly to "enlist the television industry to transmit the population message to the scores of millions who watch the tube every day."

The PI Board of Directors include Club of Rome head Dr. Aurelio Peccei and its International Advisory Council includes Rockefeller and Carter allies such as George Ball (most famous for his call last spring to "eliminate" 1-billion persons); Eugene Black; Lester R. Brown; Paul Ehrlich; Robert McNamara and Dr. Norman E. Borlaug. It works closely with the United Nations Association — an independent think tank closely associated with Cyrus Vance. In a brochure, "What Does the Population Explosion Have to Do With....." the PI said that "if our globe had fewer people on it, most of its problems would find easier solutions."

In a March 23, 1974 article, the New Republic described the method used by the PI in preparing the population to accept genocide. From regular meetings and seminars with leading TV networks executives to win them the Population Institute has been able to sell "specific story lines and plot ideas that grow from the genuine alarming drama of the population problem." The idea is to put the PI's "message" into the context of "popular series" instead of "serious documentaries" which "viewers stay away from in droves. The PI, which gives regular awards to writers, producers, and programs, worked with the producers of *Maude* in 1972 to create a show where *Maude* became the first character on a national television series to have an abortion. More recently, the PI developed the script for an *All in the Family* sequence where Archie Bunker's son-in-law Mike underwent a vasectomy.

The PI also works with journalism's leaders to "see that the news media explain how greater population

brings famine, pestilence, social chaos, pollution, resource shortages, even war." The recent barrage of articles against Mexican immigration and in favor of massive population control, particularly appearing in the Washington Post and the Baltimore Sun, is exemplary of PI's media campaign.

Zero Population Growth

Zero Population Growth (ZPG) was founded in the late 1960s as a grassroots-oriented organization with a radical cover. Initially aimed at recruiting college students and young middle-class professionals to support of zero population and economic growth, it has more recently emerged as a well-deployed lobby which publicly states and popularizes what the Rockefeller clan dare say only privately.

Zero Population Growth has a very close working relationship with the State Department, particularly the author of PIE, Marshall Green. They have put out very detailed analyses of PIE which could only have been written on the basis of access to classified documents — something which an AID official recently refused to deny. They have also been working very closely with the State Department, Justice Department and General Accounting Office around immigration. In their literature ZPG calls for the rounding up of all "illegal" immigrants (mainly from Mexico and the Caribbean) for deportation while at the same time they call for the virtual abolition of legal immigration.

With a slogan pushing the "one or no child family," ZPGers particularly focuses on winning Congressmen over to their cause. A spokesman for ZPG is Rep. James Scheuer, earlier cited as the author of a House Resolution to form a Select Committee on Intelligence. According to ZPG's newspaper, the "National Reporter," Scheuer is also actively involved in supporting anti-immigration legislation and is a major proponent of the triage clause in AID's Foreign Assistance Act.

Closely associated with Lester Brown's World Watch Institute and funded by both G.M. heir Stewart Mott (who is also on the ZPG Board of Directors) and a grant from the Office of Education, "ZPG is expecting easy access to the Carter Administration," a staffer member recently stated in an interview.

Congress

In the just-opened session of Congress, U.S. elected representatives will face a barrage of bills and resolutions which will decide whether or not the next U.S. government will go down in history as practitioners of genocide. These bills include:

— Rep. James Scheuer's resolution in support of a House Select Committee on Population. This resolution currently has the claimed support of at least 86 Congressmen although many representatives have either denied or withdrawn their endorsement.

— Both Houses will vote on the 1978 Foreign Assistance Act which will include the PIE policy. AID's Food for Peace (PL480) is also included as a section of this act and growing pressure by Senators McGovern, Clark, Humphrey and others is helping to turn this already regressive program into an outright weapon of triage.

— The Omnibus Farm Bill will soon be discussed in the Agriculture Committees of both Houses. Newly

appointed Secretary of Agriculture, Rep. Bob Bergland has been a leading proponent of vastly increased food reserves which he and others like Senators McGovern and Humphrey, see as a way for government to gain finger-tip control over the food supply. The bill may also contain provisions for reducing acreage for key grains — thus reducing the amount of grain available for export.

— Various immigration bills will be introduced this term including a Kennedy-sponsored bill that will set up an elaborate policing system to deport immigrants here for less than 3 years; the State Department, GAO and the Justice Department are all expected to work up draft legislation essentially along the lines of ZPG's immigration proposals.

— Rep. Scheuer will likely push for an increase in the funding for the Center for Population Research within the National Institute of Child Health Development. An amendment introduced in the last session failed.

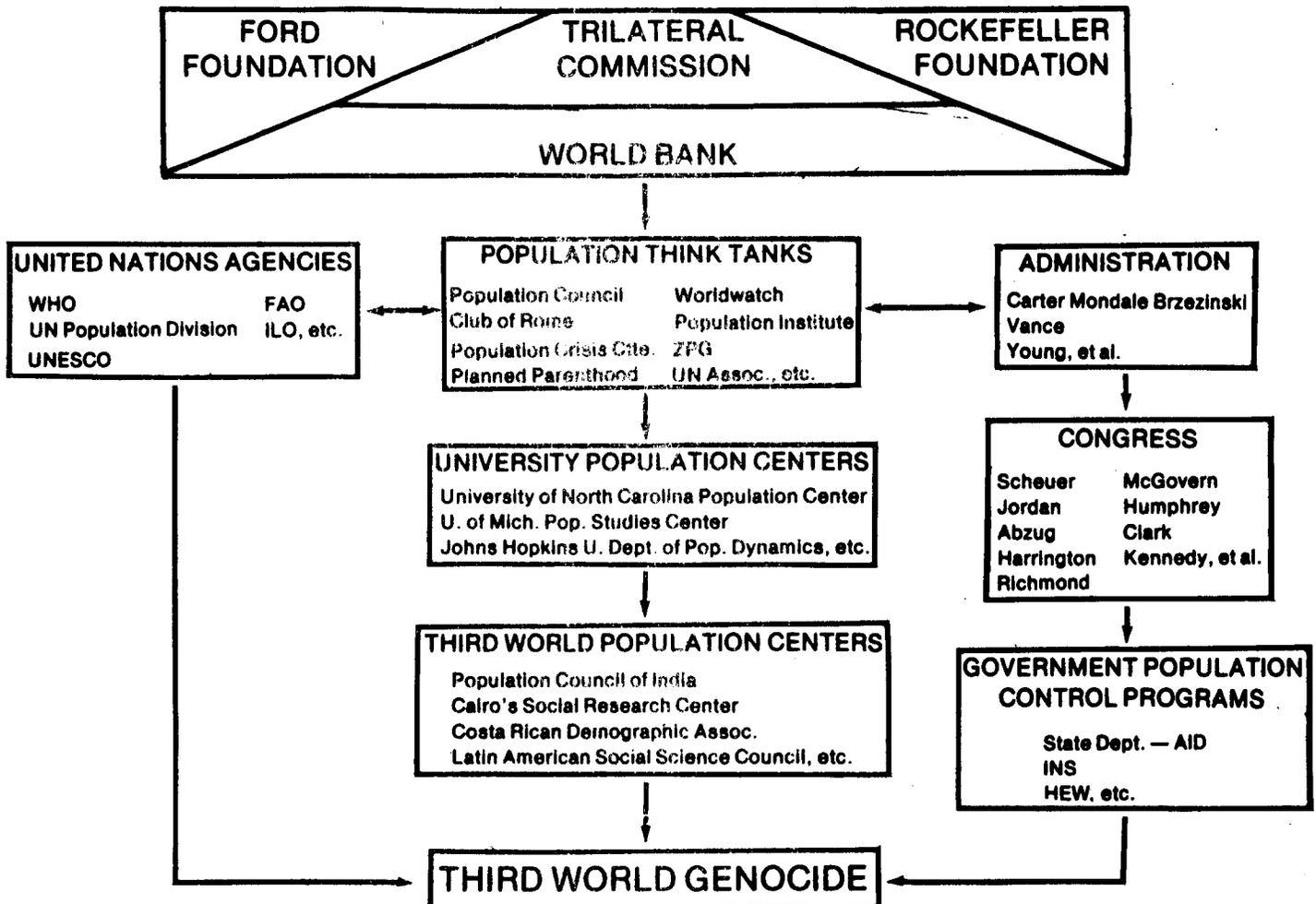
All of these bills have the backing of the entire Rockefeller population central and think-tank establishment plus their well-groomed network in Congress.

Furthermore, all have the backing of the incoming Carter Administration which plans to make depopulation a major policy focus. In particular, Cyrus Vance will continue the Kissinger-tradition of State Department-directed triage. With Bob Bergland as Secretary of Agriculture and Andrew Young as U.N. Ambassador, the Carter team is well situated.

A Rockefeller insider at the United Nations Association described two options which Congress faces: "either they pass legislation like PIE, which the Third World hates; or they give them the development aid they want."

While groups like the U.N. Association are clearly supporting the former, the bulk of the world's nations allied with the movement to establish a new world economic order are militantly fighting against triage. Argentina and Algeria, who, in particular, sabotaged the 1974 World Population Conference by using it as a forum for "development not population control," have been leading the Third World's campaign. In Zambia, the Secretary of the Women's Brigade, Chibesa Kankasa, stated earlier this year that "what Zambia needs from developed countries is medical personnel to help eradicate diseases and not to be flooded with birth control pills."

The Ford Foundation too is bemoaning active political resistance to its programs. In a recent independent interview made available to NSIPS, the head of the Ford Foundation's New Delhi Office, Mr. Gwatkins, was dismayed over Indira Gandhi's "refusal to go with coercion" in sterilization programs to the point that she "has put the lid on the program in some states." Fewer and fewer vasectomies are being completed because the Ford Foundation feels "the backlash would be too great" if the program was pushed, he said.



Carter Brings Georgia-based 'Death Squad' Program into Government

Exclusive to NSIPS

Highly reliable confidential sources in Washington, D.C. informed NSIPS last week that the incoming Carter Administration was in the process of bringing the entire private intelligence covert operations machinery back into the government as a central feature of its "government reorganization" program. The source identified the Federal Law Enforcement Training Center, housed at the former Glynco Air Naval Station in Glyn County, Ga. (adjacent to the Carter family retreat on St. Simons Island), as the training and command center for consolidated "death squads."

The source described the current deployment of the Glynco apparatus in the following terms:

1. *Domestic "90 day" terror-counter terror scenario:* A new wave of domestic terrorism, paralleling the aborted July Fourth Bicentennial scenario of last year, is now in the "conditioning" phase — a phase characterized by a proliferation of media propaganda on drug-violence. Phase II, scheduled to commence following the Carter inauguration, involves the activation of Institute for Policy Studies-Interpol directed anarchist terror employing the professional expertise of the Glynco team. This terror will provide the basis for creating a "public mandate" for strong anti-terrorism codes and institutions.

2. *Global assassination program to prevent the consolidation of a Comecon transfer-ruble based new world economic order:* That the Glynco operation is being maintained under Treasury Department jurisdiction is by no means unrelated to the overriding policy commitment of Carter's monetarist backers to sabotage negotiations on the USSR's transfer ruble proposal. Under the umbrella of "national security danger," a series of covert operations have been launched in the past month employing death squads to "destabilize" sensitive political negotiations in Europe and the Middle East. Their method: assassination.

In the past month, no fewer than a half dozen assassinations have been run by Institute for Policy Studies-Interpol "hit squads" associated with Glynco:

** On Dec. 24, French National Assembly deputy Jean de Broglie was gunned down in Paris. An initial wave of cover stories portraying the murder as a "mafia-style" hit set up by his Gaullist business partner have since been disproved.

** On Dec. 14, Greek security official Mallies was murdered in Athens by an assassin using the same OSS model .45 caliber pistol used in the December 1975 killing

of CIA station chief Richard Welsh. The Dec. 30 issue of *Rizospastis*, the daily newspaper of the pro-Moscow Greek Communist Party (KKE), pinned both the Welsh and Mallios assassinations on the IPS-Interpol network centered around the French publication *Liberacion* and a Die Spinne front called "Palladin." Phillip Scott, a *Counter Spy*-affiliated CIA agent connected to Phillip Agee and Winslow Peck and based out of the U.S. Embassy in Athens was identified as the controller of the network.

** On Jan. 3, Israeli Labor Party peace faction leader and close collaborator of Prime Minister Rabin, Abraham Ofer, died under mysterious circumstances in Tel Aviv following a month-long smear campaign directed against him by Israeli Institute-affiliated agent Uri Avneri. While the "official" cause of death has been listed as suicide, strong circumstantial evidence points towards assassination. The weapon that fired the fatal bullet was a .22 caliber pistol — a weapon widely used by professional killers (see Mideast report).

** On Jan. 3, Mahmond Saleh, former head of the Palestinian Liberation Organization (PLO) Paris delegation was gunned down in that city.

What Built Glynco

The Federal Law Enforcement Training Center (FLETC) at Glynco run by the Enforcement Division of the U.S. Treasury Department, is a specialized training school for cadre selected out of 24 federal agencies, the ten cabinet-level departments, state and local law enforcement agencies. FLETC is officially affiliated with Interpol through the training of foreign police and intelligence personnel who are brought into Glynco under the sponsorship of that semi-private international agency. The International Association of Chiefs of Police (IACP), another private organization representing top police and security officials from nearly every nation in the advanced and developing sector, participates directly on the policy-planning board of FLETC. In addition to the IACP and the Treasury Department, representatives of the Justice Department, the Interior Department, the Office of Management and Budget, the U.S. Postal Service and the Civil Service Commission have direct policy — making input into the operation, as do a network of university think tank-based counterinsurgency warfare experts affiliated with the Law Enforcement Assistance Administration's consortium program.

Officially, FLETC runs two ongoing special training

academies focused on criminal investigation procedures and on police technology. Special weapons training and counterinsurgency methods are central features of the program. Through the Justice Department Office of Management and Finance, FLETC maintains access to the Interdepartmental Intelligence Unit (IDIU) master computer bank — the federal intelligence apparatus central tracking and profiling mechanism. IDIU was created in 1967-68 under the overall coordination of Joseph Califano, (Carter's HEW designate) then-Special Presidential Advisor on Domestic Security, to pool the individual and organizational dossier and monitoring capabilities of every intelligence agency in the federal government.

The FLETC conception was, in fact, first floated at the same time that the IDIU program was being initiated (see accompanying chronology). Eugene Rossides, a top Rockefeller family intelligence operative from the law firm of Rogers and Wells was the principal sponsor of the project from his position as Assistant Secretary of Treasury for Enforcement (1969-73). Under Rossides' direction, the Treasury Department was established as the base of operations for Rockefeller faction gun and drug running activities. It is in this context that the Alcohol, Tobacco, and Firearms division took on the character of a domestic adjunct to the international terror apparatus run through Interpol, which Rossides coordinated through his position as Interpol International Vice-President.

While the Treasury Department functioned as a wholly Rockefeller-owned fiefdom and therefore represented a safe base of operation for running the FLETC as a pilot project training and command center, the full

consolidation of a centralized covert operations command structure within the government could not proceed to the final implementation stage until Rockefeller had seized control of the Presidency.

Brandstetter Moved In

By July 1976, with the Rockefeller faction confident that Trilateral Commission candidate James Carter would be placed in the White House "by hook or by crook," the FLETC operation was placed under the permanent direction of Arthur Brandstetter, perhaps the most notorious counterinsurgency warfare expert in the country. Brandstetter has been directly involved in the creation of the entire post-World War II West German police apparatus, in the training of the Brazilian "death squads," in the training and deployment of the South Vietnamese secret police and the entire network of Operation Phoenix CIA assassination teams. The Criminal Justice Center at Michigan State University, which he ran until his Glynco appointment last year, was the principal training center for Agency for International Development (AID) and Interpol "coup capabilities" — a function that is now to be wholly subsumed under the Glynco center.

The significance of the Brandstetter appointment, however, lies less in his personal curriculum vitae than in the fact that he is one central figure in a core Rockefeller death squad apparatus. This apparatus includes a network of special weapons manufacturers, mercenary forces, private investigation agencies, etc. that work to facilitate terror operations on a global scale. A future issue of Executive Intelligence Report will contain a full documented report on this apparatus.

Carter Won't Have Smooth Sailing in Congress

WASHINGTON WEEK

*** House Speaker Tip O'Neill will caucus shortly with incoming Energy Czar, James Rodney Schlesinger, according to the Speaker's office. Rumors are rampant that Carter is going to reorganize the House Committee structure to pull energy authority from pro-growth Science and Technology Committee chairman Olin Teague and shift it to Democratic control with a heavy strain of Naderism. O'Neill is in for more resistance than he expects, however, if he tries to actually carry out this scheme. His own majority leader, Jim Wright, and the currently hospitalized Olin Teague are staying in day-to-day contact over any move to reorganize the committee. Teague will resist any such move from his hospital bed and will no doubt have the support of Jim Wright, reliably reported as concerned that "some zero-growth nut" will get control of House energy policy.

*** Mr. Faust of Claiborne Pell's office threatened that if the American people didn't like the oil policies which he and Ted Kennedy were demanding, "Then there will be plenty more oil spills." Such was Mr. Faust's first reaction to a U.S. Labor Party leaflet entitled "Ted

Kennedy vs. the U.S. Constitution" which exposes the Kennedy-Carter push for a fabricated energy crisis. Pell proposes an off-shore energy development scheme over the Georges Bank, off the coast of Massachusetts. Their plans parallel Britain's North Sea Energy bubble and would provide an enormous poll for labor-intensive jobs.

*** As Pell and Co. threaten the American population, someone else is threatening their congressional colleagues. Rep. St. Germaine (D-RI) posited that they "are a lot more concerned about jobs in the area than the goddamned ducks off Nantucket" on Jan. 5. By the next day a strong lobbying job had changed the good congressman's mind, putting him on record as in favor of the Kennedy proposal. Suspicion of the Kennedy Plan and outright opposition to it run strong in many New England congressional offices including Representatives Beard of Rhode Island, Cotter and Dodd (Connecticut), and Emery and Cohen (Maine).

*** Sources in the Black Caucus report that behind the Congressional Black Caucus' call for postponement of Carter's Attorney General-designate Griffen Bell's confirmation is Caucus Chairman Parren Mitchell's

concern over far more than Bell. "Parren doesn't want this to look like just a civil-rights type opposition to Bell, because we are disappointed in the whole cabinet, especially when it comes to an area like economics."

***Not unfounded rumors that Bankers Trust and Chase Manhattan are going under are constantly overheard in congressional corridors. The "Senator from Citibank," William Proxmire (D-Wis.) is responding with his own publicity drive in step with those of the *New York Times* and Council on Foreign Relations organ, *Foreign Affairs*. On the second and third days of the new Congress session, Proxmire presided over hearings on the OPEC price rise attended only by his witnesses. Officials from the State Department, Brown Bros. Harriman, Citibank, and Morgan Guaranty each repeated the refrain, "The problem is the LDC debt, and private banks can't force the necessary restructuring (austerity) of LDC economies to collect the debt, so

official government bodies should." Lawrence Viet, testifying for Brown Bros. Harriman, has elaborated on this view in the January issue of *Foreign Affairs*.

***When encountered on a street corner this week, a frazzled Clark Clifford warned that the Committee on the Present Danger (CPD) is starting a major public relations campaign to break détente. Clifford ignored Schlesinger's presence in the cabinet by consoling himself with the thought that CPD forces do not have Carter's ears. But persons affiliated with the Center for Defense Information warn that Carter is highly susceptible to Schlesinger's influence.

At Carter's behest, the Senate Foreign Relations Committee is staging hearings on "National Security and U.S. Strategic Options." The hearings, to be held in the coming weeks, feature National Security Council-Committee on the Present Danger member Paul Nitze and Clifford's law partner, Paul Warnke.

Further Dollar Weakness Expected

FOREIGN EXCHANGE

Exclusive to NSIPS

The U.S. dollar has lost slightly less than one per cent against the deutschemark since the close prior to the New Year's weekend. It also lost one per cent against the pound sterling, slightly less than one per cent against the French franc, one per cent against the Canadian dollar, and half a per cent against the Japanese yen. The underlying depreciation potential of the dollar, however, is considerably greater than the figures indicate, due to between \$50 and \$75 million per day in central bank intervention on the dollar's behalf in an extremely thin market.

A combination of factors strongly indicate further downward pressure against the U.S. dollar, and consequent buoyancy for the deutschemark and firmness for other leading European currencies. Most critical of these factors is the current policy stance of the West German government and monetary authorities, which the U.S. monetary authorities view as the principal cause of the dollar's weakness. The second critical factor is the continued unwillingness of large Arab investors to accumulate further holdings of dollars, and probable Arab disinvestment from dollars into other currencies. Since these political factors are in line with virtually all the technical factors, the dollar has only one way to go: down. The only major source of strength the U.S. fund can draw on is likely to be the shift in the policy of the Japanese monetary authorities and government under the new prime minister, Fukuda.

Although there are widespread reports that there is sentiment at the U.S. Treasury indifferent to a further decline in the dollar-deutschmark parity, the Federal Reserve is extremely concerned about the sharp December fall, which ran counter to their and the New York market's expectations. Federal Reserve sources identify the slight uptick in short-term U.S. interest rates on Monday and Tuesday as a means of testing the response of all markets to a somewhat firmer interest rate stance. By late Tuesday, the Fed concluded that the experiment had been a failure, and concluded that it had no short-term means of preventing further dollar depreciation.

In addition, the Fed has been intervening strongly in favor of the dollar, using principally sales of deutschemarks which it had borrowed from the Bundesbank. Bundesbank foreign exchange staff place their level of intervention at \$5 million on Monday and \$10 million on Tuesday, and attribute most of the rest of intervention to the Fed. This extraordinary intervention policy indicates how upset the Fed is about the dollar's behavior. Fed staff express great disappointment about the failure of the

Bundesbank to cooperate with them, both in intervention policy and overall monetary policy.

Bundesbank Will Not Reflate

Considerable armtwisting by the Fed and by spokesmen for the incoming U.S. cabinet have failed to convince the West Germans to adopt an easier monetary stance, despite Washington's aim of "goosing Germany and Japan to expand faster," in a view cited by New York Times columnist Leonard Silk. On Thursday Jan. 6 the Bundesbank Council met and announced no change in its restrictive policy; the Fed estimates that nothing but a public announcement of a policy change would aid the dollar against the deutschemark. On the contrary, the West Germans are taking great pains to prevent the current glut of liquidity from lowering interest rates. The fall in Euro-deutschmark interest rates from a high last week of 5 per cent to 3.5 per cent on Jan. 5 was a side-effect of the large borrowings and sales of deutschemark by the Fed; rates rebounded to four and one-eighth on Jan. 6. Contrary to some wire-service allegations, the weakening of interest rates did not help the dollar; rather it reflected intervention in support of the dollar. In any case, the market is making allowances for day-to-day fluctuations resulting from the logistical difficulties that the Bundesbank is having in mopping up the liquidity glut. Apart from the DM 14 billion current-account surplus West Germany has racked up for 1976, a government-sponsored employee savings scheme matured this week, releasing DM 25 billion into the banking system. This situation has not only removed the large Federal government spending deficit from the list of weakening factors, but has forced the Government to borrow more than it needs in order to hold down the monetary aggregates.

A Jan. 5 dispatch from Bonn in the Milan daily *Corriere della Sera* reports that Schmidt has determined that further intervention for the dollar would undermine his economic program and arouse political opposition, and that Schmidt has obtained the agreement of Bundesbank president Karl Klasen to stop intervening. Numerous West German sources, including Bundesbank foreign exchange staff, confirm this estimate.

In this context, the West German outlook on foreign exchange problems has changed fundamentally. Previously West Germany would accept virtually unlimited amounts of dollar flight capital in order to prevent the appreciation of its exchange rate. According to many New York estimates, fear of a rising deutschemark and consequent injury to West German exports would compel the West Germans to reflate. At this point the West German monetary authorities are concerned about the stability of the

deutschemerk rate within the broader European currency group and about domestic inflation. They are entirely unconcerned about the dollar rate. There are no indications that Carter's advisors appreciate this point; however, the New York Federal Reserve, among others, does.

The Bundesbank now assumes that the inflationary effect of dollar inflows is limited by the depreciation of the dollar. Against West Germany's current-account surplus of DM 14 billion last year, which reflects an even larger volume of currency inflows, the Bundesbank was able to write down the value of its foreign exchange holdings by DM 6.16 billion, due to the 11 per cent depreciation of the dollar over the year. If the Bundesbank permits the entire brunt of flight capital activity to hit the dollar's parity, the amount of "imported inflation" will approach zero, and even become negative.

Further strong indication of the underlying weak position of the dollar is the willingness of the weaker European countries to ease monetary restrictions. On Jan. 5 Belgium lowered its discount rate from 9 per cent to 8 per cent. On Jan. 6 Holland lowered its discount rate from 6 per cent to 5 per cent. Both France and Britain are taking a less restrictive policy towards the rate of increase of monetary aggregates and-or bank lending. The French franc, which behaves as a "borderline" currency between the deutschemark and Swiss franc on one hand, and the lira and pound on the other, has moved almost precisely in tandem with the deutschemark.

Less significant factors weighing against the dollar include:

1) The seasonal end of repatriation of profits by U.S.-based multinational corporations motivated by Financial Accounting Standards Board regulations.

2) Continued weakness in U.S. interest rates, particularly as U.S. banks permit the runoff of money-market instruments they accumulated as window dressing for their year-end balance sheets.

Otherwise, there is no question that large Arab dollar holders will shy away from accumulating further dollars. Large Arab placements of funds in dollars virtually halted on Carter's election Nov. 2, due to Arab perception that Carter favored Israel more than did the present Administration. This Arab attitude will intensify as a result of, first, Carter's cool response to Sheikh Yamani's demand for a quid-pro-quo with respect to the moderation of Saudi Arabia's oil price increase, and secondly Carter's insistence on meeting Arab heads of state one by one over a period of months, rather than helping to convene a Geneva Mideast peace conference. This week, the West German conservative weekly *Deutsche Zeitung* attributed the dollar's overall weakness to Arab reluctance to hold dollars. As the dollar continues to depreciate, Arab withdrawals of dollar holdings could very well snowball.

On Jan. 5 the new Japanese prime minister Fukuda announced a reflation program including a mid-January cut in the discount rate and a \$1.2 billion rise in government expenditures in the first three months of 1976. Probably the yen will tend to move in parallel with the dollar, while most European currencies move in parallel with the deutschemark.

New Activity Due to Business Confidence in Schmidt Monetary Policy

INTERNATIONAL STOCKS

Exclusive to NSIPS

The new spurt of activity in the West German equity market measured by a 3 per cent rise in the Commerzbank index during the past week after several months of total flatness, directly reflects the buoyancy of the deutschemark over the dollar and resultant business confidence in the Schmidt government. Schmidt, with the firm backing of the pro-growth wing of the Christian Democracy led by Schleswig-Holstein Minister Gerhard Stoltenberg, has resolved to maintain the integrity of the mark even under the current tremendous pressure to inflate emanating out of the Jimmy Carter transition headquarters in Plains, GA. (See Foreign Exchange report.)

In particular, activity was strong and future prospects are bright for the energy and machinery sectors. The former, typified by Veba Gelsenberg AG, are part of the European network including the Italian state oil company ENI which is developing relations with the oil-producing countries including Arab investment and joint ventures. The machinery sector, led by Mannesman, is

about to benefit from a new spurt of East-West trade under the impact of increased Soviet initiatives for new mechanisms to finance expanded trade exemplified by their offer of Comecon transferable ruble financing to the West last month.

Schmidt made his commitment to expanded trade, with OPEC in particular and in general, in his year-end message to the nation. "Today, we can consider it an advantage that our most important oil suppliers can learn and experience practically, through their participation in our industry, what turning the oil spigot means for us and our economic well-being," he said, in a direct call for cooperation. "Isolated, single dealings of individual states will become more and more difficult."

Otto Wolf von Amerongen, president of the German Trade and Industry Federation, strongly seconded Schmidt in denouncing isolationism and dismissing all arguments against further expansion of East-West trade as "misinterpretations of the differences in the international division of labor."

The energy-related stocks are benefiting directly from the European-wide move for cooperation with the OPEC nations. Veba has risen a dramatic 11.9 per cent since the beginning of December, and 7.9 per cent in the past week

alone, while West Germany's other major utilities company RWE has risen 8.1 per cent since December and 4.5 per cent over the last week. The government-controlled Veba is also Germany's national oil company, and is a member along with the state oil companies of Italy, France, and Belgium, of the "Euro-cartel" which these government companies have set up to challenge the U.S. multinational oil companies for control of the European market.

Mannesmann, the major machinery and engineering firm, did exceptionally well, rising 8.6 per cent in the past month, more than 4.6 per cent in the past week alone. Mannesmann, along with other machinery and engineering companies such as Siemens and AEG which also made gains, has already begun to participate in the new upturn in East-West trade which recently started up after total flatness during the summer and fall of 1976.

It should be noted that in general, the rise of most stocks took place virtually entirely within the past week, after a month of real doldrums for the Frankfurt bourse.

	(closed)		Friday Jan. 7	% Change on	
	(month end) Nov. 30	Thursday Dec. 30		Week	Month
COMMERZBANK INDEX	725.2	727.4	748.9	+3.0	+3.3
Veba	113.3	117.5	126.8	7.9	11.9
RWE	159.0	164.5	171.9	4.5	8.1
Mannesman	171	177.5	185.7	4.6	8.6
AEG	82.8	82.5	84.7	2.7	2.3
Siemens	256.5	265.5	270.7	2.0	5.6
BASF	157.5	158.8	160.0	0.8	1.6
Bayer	135.5	135.6	141.0	4.0	4.1
Hoechst	137.1	136.0	141.5	4.0	3.2
Volkswagon	135.5	135.5	137.5	1.5	1.5
Daimler Benz	334.3	334.0	337.5	1.1	1.0

World Gold Reserves a Basis For New Credit System

GOLD

Gold has an intrinsic value, measured by the cost to society of the labor-power needed to mine and refine the scarce metal. This intrinsic value justifies, on the most elementary economic criteria, Italy's decision last week to revalue its massive gold stocks to the world market price of \$135 an ounce, and motivates the flow of Arab money out of the bankrupt dollar into gold.

Secondly, because both the Soviet sector and Western Europe possess large amounts of gold — over \$20 billion and not quite \$80 billion at current market prices — this form of monetary reserve is the ideal "bridge" between the socialist and capitalist monetary systems.

Past this, however, the role of gold in the new world economic order is a question of the *political* readiness of countries to extend long-term credit to each other with the objective of raising the rate of *world* development to the maximum. Gold by itself gives us no magic solution.

The Fallacy of "Hard Money"

Specifically, the world is able to expand trade by \$300 billion during the first year of operation of an International Development Bank-type monetary system. This is roughly three times the value of all official gold reserves at the market price. This figure of expansion of international trade, which will require long-term trade financing, will escalate geometrically, to the point that the volume of issue of international trade credits will exceed total international gold holdings several hundredfold.

This trade includes the transfer of the means of

agricultural development to the Third World, agricultural equipment and machine tools to the Comecon sector, etc., with the purpose of bringing the entire world's population to the highest levels of living standards and skilled productivity reached in the industrial capitalist countries. A decade or more will elapse before most of the recipient-countries will be able to, or properly should, export more goods that they import to "repay" these loans.

Official Gold Holdings Of OECD Countries

	1973 (a)		
	Value \$ Mill.	Volume Mill. Ounces	Metric Tons
U.S.A.	\$11,652	275.98	7,822
U.K. (b)	886	20.99	595
Austria	881	20.87	592
Belg.-Luxemb.	1,789	42.37	1,201
Denmark	77	1.82	52
France	4,261	100.92	2,860
Germany	4,966	117.62	3,334
Italy	3,483	82.50	2,338
Netherlands	2,294	54.33	1,540
Norway	41	.97	27
Sweden	244	5.81	165
Switzerland	3,513	83.21	2,358
Canada	827	21.96	622
Japan	891	21.10	598
Finland	35	.83	24
Greece	148	3.51	99
Iceland	1	.02	1
Ireland	18	.43	12
Portugal	1,160	27.46	779
Spain	602	14.26	404
Turkey	151	3.58	101
Australia	311	7.37	209
Total OECD	\$38,331 (c)	907.89 (c)	25,733 (c)

(a) December 1973.
 (b) September 1973.
 (c) Includes U.K. to September.
 Converted at \$42.22 per ounce of Gold.
 Converted at 35.281 ounces = 1 Metric Ton.
 Source: International Financial Statistics.

From the monetarist standpoint this would be impossible: the chief concern of monetarism is relative profit drawn on individual loans. From our standpoint, the financier — the governments themselves — takes no profit; the expression of profit on the development-credits is the enhancement of the productivity of labor on a world scale. For the individual, this means expanding the range and cheapening the price of all goods available to him.

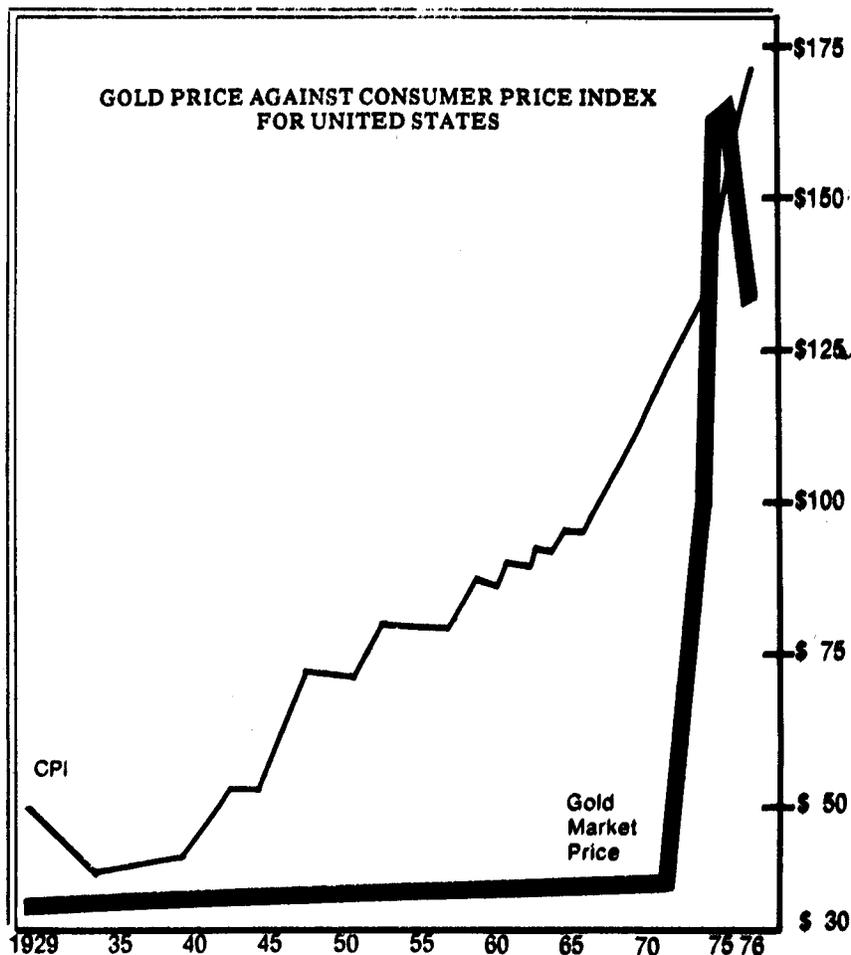
Since current central banks gold holdings are roughly 25 times the annual output of the world's gold mines, there is no way to increase gold reserves at anything like the rate of take-off of international trade and international trade credit. The leading industrial and oil-exporting countries must issue gold-backed loans with what is known, in bankers' jargon, as a "grace period" of 20 years and up. This may vary with different cases — the Soviet sector in particular should turn into a net exporting country within a relatively short period — but gold reserves absolutely cannot be used to "clear" international payments in any automatic fashion. Further, there is no relationship whatsoever between the volume of international credit and the physical volume of world gold reserves; the rate of credit-extension is strictly a byproduct of the world economy's potential for expansion.

Were it not for the prevailing monetarist notion of what a "gold standard" is, few people would have difficulty accepting this. But most conservative views on gold, including most Gaullist pronouncements, identify gold with "hard money," a mere limit to credit expansion, a plain negative view of the horrendous credit expansion under the dollar after it lost its gold backing. The notion boils down to the presumption that if people (or countries) can always exchange paper money for gold, central banks won't be able to issue paper money beyond a limited reserve ratio.

Yardsticks

No such gold standard has ever existed. Since the papal bankers forced the fourteenth-century world to circulate a gold florin at double its gold content, the content of the "gold standard" has depended on who controlled world credit policy.

The supposed heyday of the gold standard during the nineteenth century had the following peculiar origins: imperial Britain made gold and sterling the basis of international trade at a point in history (1821) when the British pound was more bankrupt than it is now. By 1816, after the devastation of the war against Napoleon, the pound had fallen to half its pre-war value measured in gold; the national debt position was several times worse



than it is in Britain now, with one in every ten taxed pounds going to pay debt service. With huge amounts of printing-press pounds available from the Bank of England, the Rothschild and Baring banking groups lent out over 100 million pounds between 1815 and 1825 in speculative foreign loans, an inflationary splurge on the relative scale of the growth of the Eurodollar market during the 1970s.

Amidst the hyperinflation Britain returned to the "gold standard" in 1821, and stayed on it until 1914. Did this have anything to do with the Bank of England's gold reserves? Not really. Britain emerged out of the Napoleonic period with the power to loot the rest of the world. The pound sterling's value was based on American cotton, Russian grain, Indian opium, Chinese

tea, and a hideous child labor system at home. But the leading apologist for monetarism, "classical" economist David Ricardo, formulated the prevailing stupid notion of the "gold standard" to justify the stabilization of sterling as a world currency.

Although the financial procedures we propose for the new gold-reserve system send the monetarists into hysterics, they have no right to complain. They have spent six centuries distorting the gold standard in order to loot real value. Nineteenth century British financiers never counted gold bars to determine whether their international loans were sound; they counted gunboats. We do not have to count gold bars either. Our only *fundamental* yardstick for the rate of credit creation is the rate of social surplus.

Mr. Carter's Economic Package

BUSINESS OUTLOOK

Initial reaction to Mr. Carter's proposed economic stimulation package will likely draw the inference that the President-elect's methods of confusing the electorate, which he relied on during the campaign, have been applied to the business community and the constituencies of the Democratic congressmen who helped him draft it. The package itself seems designed to do absolutely nothing and please absolutely no-one. The mooted size of direct tax cuts, at \$12 billion, is entirely unacceptable to the Keynesian component of the Carter team (and, reportedly, to the United States Chamber of Commerce). The mere doubling of existing public-service jobs from the present level of 300,000 to a projected 725,000 by 1978 comes not even within the range of demands of the neo-fascists Michael Harrington (D-Mass.), and Barbara Jordan, who make up whatever social base Mr. Carter has. In addition, the omission of any investment tax credit from the package will surprise even those who come to expect supreme tactical stupidity from the Carter camp. Nothing Mr. Carter could have done could have been so immediately effective in sabotaging months of careful, artful coddling of business fears about the new Administration. The omission of investment tax credits will give the Wall Street Journal enough raw material for a month-long editorial rampage.

From what is published about the package at deadline, it includes:

- a) \$12 billion in personal tax component, heavily weighted towards the lower-income side of the scale;
- b) a \$2 billion increase (through fiscal year 78), or public service jobs spending;
- c) a \$2 billion increase in revenue sharing;
- d) a \$2 billion business tax incentive favoring labor-intensive operation, through deductions for payroll tax contributions.

The fangs show through only in the final proposal, which Carter aide Charles Schultze identified as an

alternative, and preferable, to an investment tax credit.

But, superficial reactions aside, there are extremely good reasons for Mr. Carter and his advisors to behave stupidly. These reasons are indicated by one anecdote: most Carter economic advisors felt their hearts miss a beat when market opinion concluded earlier this week that the Federal Reserve had decided to tighten interest rates. They are afraid that the bond market, already groaning under an issues calendar half-again as heavy as the previous year's, will panic in the face of a huge projected tax out and consequent spending deficit of the Federal government, leading to an "upward collapse" of interest rates. In fact, what dictates Carter's stupidity, and makes his miserable package explicable, is the underlying condition of the U.S. economy.

As President Ford warned the Carter Administration this week, it is "a very narrow line" that Carter can tread in terms of economic policy, perhaps implying out of a misplaced sense of human decency, that it is possible to even find the line, much less tread it. In fact, the recent experience with the ineffectual 1975 "tax cut" showed the line has long since flown off the upper right quadrant of the Philips Curve graph.

In terms of how this dilemma will affect the "business outlook," it is of course impossible to quantify the key political processes which will ultimately determine the parameters of the U.S. economy. But it is important to bear in mind the most important aspects of the situation.

The U.S. economy has been given a new lease on life by the Saudi Arabian decision at December's OPEC meeting to postpone a significant oil price increase, which is providing Europe the much-needed breathing space to work out a new trade-based, gold-backed monetary system. Third World indebtedness continues to mount, as the attempt to stabilize the debt-ridden Western economies have wreaked havoc with world trade. In this situation, Carter's key economic advisors, including Blumenthal, Cooper and Bergsten, are likely to commit themselves, as the *New York Times* noted yesterday, to attempts at massive austerity-based, bail-out arrangements internationally, attempts which seem increasingly futile in light of West European opposition.

Nonetheless, these advisors seem to be committed to the semblance of a strong "reflationary" policy for key OECD countries, especially the U.S. and West Germany — as recommended by New York Federal Reserve Board President Paul Volcker, a long-time Chase Manhattan official, in a recent Sunday issue of the *New York Times*. Carter's people believe that failure to sell this policy to the W. Europeans (to "goose them" as the *New York Times* said yesterday), will lead to an acute financial crisis, sooner rather than later.

This short-fuse on the international side of the problem is extremely important, despite the projections of even the most "bearish" of established U.S. forecasters (an admittedly rare breed), who might project a sluggish 1977 leading to a new recession in 1978 on the basis of computer simulations based on fixed, linear relationships which show the economy gradually running out-of-steam. The real world, however, will operate on the basis of non-linear, non-programmable judgements. Even if from a purely "domestic" economic point-of-view it might appear that Carter could somehow come up with a number, not too large and not too small, which will placate both the bulls and the bears for at least several quarters, the international situation does not allow such leeway.

This overall situation makes the acute difficulties faced by the Carterites clearer. Despite pressures from many of his supporters for a \$30 billion-plus program, consisting mainly of forced-work jobs, the pressure to avoid touching off a new inflationary surge has come increasingly to the fore.

This pressure was reflected by Bert Lance, Carter's Director of the Office of Management and Budget, who said yesterday, "I think we've got to be very, very considerate of the fact that economic stimulation packages add to the deficit, which is already very, very high and I think if you're not very, very careful about it, you're going to cause some real problems in the minds of the American people."

Despite the recent sharp drop in farm prices, the underlying rate of inflation in the U.S. economy is quite high. Leaving out food, the consumer price index increased at a 6.7 per cent annual rate from January through October. The wholesale price index for industrial commodities increased at a 6.8 per cent rate over the same period. More recently, the WPI industrial commodity index increased at a 7.8 per cent annual rate from May to October.

Broken down further, the price of fuel and related products and power, which comprises over 13 per cent of the industrial commodities index, has risen at a rate of 18.5 per cent since May, while the prices of all other industrial commodities has risen at a rate of 6.1 per cent, the same as the first five months of the year.

Higher fuel, along with other costs, are simply not being passed along by manufacturers at present, due to weak business conditions. Instead, these costs are being absorbed through a depressed level of capital spending (new orders for non-defense capital goods declining a whopping 10 per cent in November), and very high rates of speedup imposed on a manufacturing workforce some

6 per cent lower and plant and equipment considerably less efficient than in June, 1974. And with all this, November industrial production barely passed the "pre-recession" peak.

While that is indicative of hidden, accumulating inflation, the possibility of renewed inflation simply doesn't depend on the need to pass along old costs. Freud once noted that if he went down to the Thames River and held a man's head under water until he drowned, it wasn't necessary to repeat that experiment in every river in the world. U.S. industrialists, normally an "objective" lot, have learned that lesson the hard way. Whatever the final size of Carter's package, they know it will create a huge deficit in the current fiscal year. The originally rejected deficit of \$50 billion has already been raised over \$10 billion by Congressional Budget Office Director, Alice Rivlin, a Brookings Institute expert on such matters. Adding on so-called off-budget agencies and a mere \$15 billion Carter program, the deficit will approach \$90 billion.

Although a feeble case could be made that this can be financed if capital spending, government social services, etc, are sufficiently reduced, the possibility of a borrowing stampede in anticipation of the perceived inevitable result of such deficit financing is very high...In fact, the failure of such a "scenario" to occur replete with rising interest rates, would only indicate that the U.S. economy is so weak that the rest of the world had better abandon it in short order, or go down the drain in history's worst depression.

Although such behavior by industrialists might seem irrational in terms of self-interests, it is perfectly understandable. The simplest way to get a quick understanding of the possible dynamics of the economy in the upcoming period is by noting that total liabilities in the economy have increased by over \$1.1 trillion, some 25 per cent, to nearly \$6 trillion total in a two and one-half year period, June, 1974 to present. During the same period, industrial production fell over 15 per cent and then returned to its former level. Obviously, despite talk to the contrary, the economy and its inflationary potential is far worse today than ever before. Since this mass of fictitious paper is self-expanding, it obviously represents tremendous inflationary potential, dependent of the political ability of the Wall St. financial controllers to reduce real production and living standards fast enough to alleviate the short-term danger. This, of course, is the argument of the outright fascist "energy conservation" advocates who have been so active in recent weeks, and who, as noted French economist Jacques Rueff noted in reference to the Nazi economy, want to avert inevitable inflation through out-right cannibalization.

Until this basic problem is cleared up once and for all, serious economic forecasting will be relegated to short-term snapshots of a highly volatile situation. As for those who listen to the current round of "pause is over" talk from those who were miserably wrong in 1974, 1975, and 1976, the years of the "upturn," Freud's little story should be kept in mind.

European Steel Outlook: More Cutbacks

STEEL

After two of its worst consecutive years in history, the steel industry is entering 1977 with the realization that its old friend the business cycle is not going to reassert itself and bring about a miraculous end to the industry's problems. Nowhere is this more evident than in Europe.

1976 ended with the industry in dismal condition. In France alone one-third of a 150,000-man work force is either laid-off or on short time, and an additional 10,000 layoffs are expected over the next two to three years. In Germany, 55,000 workers, or 17 per cent of the work force, are similarly affected. Compounding this problem is that some of these "temporary" layoffs have now reached the allowed two year maximum beyond which government wage subsidy is cancelled and dismissals become too difficult to avoid. In France, where medium and long-term debt is presently equal to this year's turnover of Frs. 3bn, the industry is seeking additional government aid in the area of Frs. 3bn (\$600 mn). Present industry indebtedness to the state already accounts for 20 per cent of total debts on loans bearing around 9.5 per cent interest. French President Valery Giscard d'Estaing is expected to approve additional aid of about Frs. 2bn or \$400 million to help the industry cover its financial needs during 1977.

Symptomatic of the problem has been the decline in export prices. Reinforcing bars which had reached a peak price of f.o.b Antwerp 12,500 Belgium francs during 1974 were being quoted at Bfr. 7,000 in December 1976, and actually being sold below that level. Cold rolled coils which had climbed back to a level of Bfr. 12,700 as recently as June of 1976 have dropped down to Bfr. 11,000.

In Great Britain the industry, while not thriving, is doing somewhat better than its neighbors. This is partially due to government subsidies for the stockpiling of products and to a strong market situation outside the EEC.

As the Europeans view the real solution to their problems, the increased use of, and therefore the increased demand, for steel, as beyond their control, they have apparently reached the conclusion that cartels are the best way to deal with the current situation.

The major cartel is called "Eurofer" and involves all EEC members in a plan of voluntary production quotas (reductions) and stiff import restrictions. The levels of these reductions are shown in the following table and reveal the extent to which demand for steel has declined over the past three years.

Another form of cartel arrangement which is becoming more of a factor on the continent as the depression continues involves individual firms either within one country or extending into other countries within the EEC. In Belgium the four largest steel producers — with a capacity of over 15 million metric tons, (about the size of Germany's Thyssen group), one-third of which is currently idle — have just signed a close cooperation accord. While the accord is subject to approval of the European Coal and Steel Community, it has been left open to other

EEC steelmakers who may wish to join. It calls for all members to consult on all matters of mutual interest ranging from production and marketing problems, to raw material supplies, transport and investment problems. Belgium's steelmakers are handicapped by a small home market and high overhead costs as many plants are located inland. They also produce large amounts of some of the products hardest hit by the ongoing crises.

In Germany, a new grouping has been approved by the EEC, replacing the rationalization program which began in 1971. This new plan, which excludes two large steel conglomerates, Thyssen and Estel, brings in Luxembourg's Arbed group. Under the new plan the German industry will form two groups, "northern" and "southern." The northern group consisting of eight companies including Klockner-Werke AG, Peine-Salzgitter AG, Fried Krupp Huttenwerke AG, and Maximilianshuette mbH accounts for 20 per cent of German and 9.4 per cent of EEC steel production. This grouping provides for coordination and joint production of certain products between certain of the member countries, and also allows for Krupp, Klockner, and Peine-Salzgitter to coor-

STEEL PRODUCTS

In 1000 tons for the first quarter.

	Germany	France	Italy	Benelux	U.K.
Beams and Sections					
1974	394	293	163	362	346
1977	270	200	117	245	255
Reduction %	31.5	31.7	28.2	32.3	26.3
Reinforcing Bars					
1974	444	270	891	423	173
1977	250	165	735	240	125
Reduction %	43.7	38.9	17.5	43.3	27.7
Other Merchant Bars					
1974	698	376	562	299	584
1977	480	240	460	185	465
Reduction %	31.2	36.2	18.1	38.1	20.4
Wire Rod					
1974	753	540	228	320	472
1977	510	350	155	210	410
Reduction %	32.2	35.2	32.0	34.4	13.1
Heavy and Medium Plate					
1974	991	424	637	465	549
1977	600	295	485	315	370
Reduction %	39.5	30.4	23.9	32.3	32.6
Cold Rolled Sheets					
1974	711	835	761	864	482
1977	600	750	660	715	440
Reduction %	15.6	10.2	13.3	17.2	8.2

dinate their production programs and rationalize product lines. The southern grouping consists of all medium-sized firms with mills located in Germany, except for Arbed. Due to interlocking directorates this grouping actually represents three distinct entities. They will coordinate production of finished products, raw steel, and semi-finished products, and cooperate in the purchase of raw materials, especially iron ore. Members of this group include AG des Dillinger Huttenwerke, Roechling Burbach (an Arbed subsidiary), and Neuenkirchen Eisenwerke AG and account for 11.5 per cent of West German steel production, and with Arbed, 7.4 per cent of all EEC production.

Europe's answer therefore appears to be the contraction of its steel industry and the minimizing or sharing of losses through consolidation.

Although the situation in the U.S. is different than that in Europe, especially in the area of free markets this psychology seems to be surfacing there also. It has been reported that Alan Wood Steel Co., Conshohocken, Pa. and Youngstown Sheet and Tube, Youngstown, Ohio intend to

sign a mutual cooperation agreement. While few of the details have been made public, it is known that under the agreement Youngstown will process and market some of Alan Wood's products and Alan Wood will process Youngstown's products. The agreement will also provide Alan Wood with a source of hot-rolled band when it closes its hot-strip mill in February due to the company's weak financial position. Negotiations are also underway for agreements on raw material and technical services. The two companies will continue to operate independently, according to a source from Youngstown Sheet and Tube.

Alan Wood has been operating at a loss for the past 18 months and has just announced that holders of its major long-term debt of over \$4,500,000.00 in principal and interest due Dec. 1, 1976 have agreed to a postponement until May 31, 1977. Losses for the first nine months of 1976 were \$11,583,000.00 against sales of \$126,071,000.00.

It is still too early though to know whether the Alan Wood-Youngstown agreement will lead to the paths presently being followed in Europe.

W. Europe Undertakes Expanded Trade to Counteract Deflationary Downturn

The major economies of Western Europe showed a significant downturn in industrial activity and an alarming rise in unemployment during October and November of 1976. The tightening of trade and domestic credit during August and September, reflected in a cut in consumption of over \$12 billion in Britain, Italy and France alone, was demonstrably responsible for these serious developments in the real economy. The deceleration of inflation rates not only in West Germany, but in France and Italy as well pinpoints the European-wide deflationary downturn into which Europe has moved.

To deal firmly with this dangerous conjuncture, the governments of Italy, Britain, and West Germany have adopted the political policy of expanded international trade, and have undertaken implementation of the credit policy necessary to finance it. The three countries have made explicit efforts to expand their trade arrangements with the OPEC oil-producing and the Comecon nations. Together these efforts represent much more than a simple export drive, and imply the genesis of a new international monetary system to replace the bankrupt U.S. dollar as the principal international reserve currency and trade medium.

Since the summer 1976 doldrums, production throughout Western Europe has taken an overall downturn. The sole exception to the bleak picture was the export boom in Britain and Italy during the second and third quarters, which represented no more than a bargain basement looting operation against these collapsed economies and currencies and which petered out in October for lack of continuing export demand. In the Federal Republic production fell ominously by one per cent in November, while the latest production figures for France and Italy show October production dips of 4.7 per cent and 2.8 per cent, respectively. Overall incoming orders for West Germany, which had been Western Europe's star on the order boards, similarly fell two per cent and three per cent during September and October. Orders remained flat in November.

The immediate result has been a jump in unemployment rivaling that of the 1974-75 depression. West German unemployment rose sharply during December to 1.09 million, the level of late 1975, while French unemployment in November rose to 1.04 million, with government forecasts for 1.2 and more early in 1977. The British unemployment figure for December was 1.37 million, relatively flat but projected to rise sharply in January.

Restriction of trade credit in France, Italy and Britain and domestic credit to industry in West Germany created this debacle. For example, the imports restriction in

the austerity programs instituted in France, Italy and Britain hit directly against West German trade, and generally against all intra-European trade. West German exports to the EEC as a whole dropped from the second quarter to the third quarter and again from September to October. This included a September to October drop in West German exports to France and Britain by two and four per cent respectively.

Credit restriction policies across Western Europe resulted in decelerating inflation rates. The wholesale price index in West Germany dropped absolutely by -0.2 per cent in September, -0.1 per cent in October, and -0.3 per cent in November. The French wholesale price index dropped by 0.2 per cent in October, while the rate of rise in consumer prices has fallen from 1.1 per cent to 0.9 per cent to 0.8 per cent during September, October and November, respectively. Even the rate of rise of the Italian consumer price index slowed during October and November.

Not surprisingly, a new approach to international fi-

		UNEMPLOYMENT			
		Nov. '76	Oct. '76	Sept. '76	Nov. '75
USA	(s.a.) 000s	7,769.0	7,569.0	7,400.0	7,701.0
	%	8.1	7.9	7.8	8.3
Holland	000s	220.1	218.8	220.6	222.3
	%	5.4	5.3	5.4	5.4
France	000s	1,040.0	1,025.0	955.4	1,020.0
	%	4.7	4.6	4.3	4.6
W. Germany	000s	984.7	943.7	898.7	1,114.2
	%	4.3	4.1	3.9	4.9
		Oct. '76	Sept. '76	Aug. '76	Oct. '75
U.K.	(s.a.) 000s	1,305.5	1,319.3	1,307.4	1,185.4
	%	5.4	5.6	5.5	5.0
Belgium	000s	230.7	222.9	223.1	208.9
	%	8.8	8.5	8.5	7.9
Japan	000s	1,000.0	1,010.0	1,030.0	1,030.0
	%	1.8	1.9	1.9	1.9
		July '76	April '76	Jan. '76	July '75
Italy	000s	776.0	673.0	681.0	648.0
	%	4.0	3.5	3.5	3.3

Unemployment rose in most of the major industrial capitalist nations, starting last fall, reflecting the general "slowdown" in world production and trade.

nance has taken hold in Italy, Britain, and West Germany, an approach characterized by moves toward a new international monetary system to get at the real problems of industry. Only France, whose government remains in the hands of pro-Wall Street President Giscard d'Estaing, has refused to join in the growing actions against U.S. dollar hegemony in Europe.

The Italians have led the way, with the Libyan purchase of ten per cent of Italy's Fiat auto giant marking the beginning of similar arrangements between OPEC and British and West German companies including British Petroleum and Volkswagen. In these deals OPEC capital is infused directly into European industry to foster industrial development. More importantly, direct government-to-government oil-for-machinery barter deals have begun to proliferate between these European governments and OPEC member's national oil companies, bypassing the U.S. multinational oil companies control of the European oil market — and bypassing payments in U.S. dollars. Exemplary is the arrangement announced last week under which ENI, Italy's national oil company, will trade Italian industrial goods for four to five million metric tons of oil per year. The National Iranian Oil Company will provide this oil to ENI's European sales network outside Italy.

The end on which these interim trade policies converge

is significant Italian, British, and West German support for last month's proposal by the Soviet Union that the Comecon's unit of account, the gold-backed transferable ruble, be used as a new global form of credit to finance expanded East-West and Third World-developed sector trade. Scores of prominent West European bankers and their foreign ministers have voiced support for the transfer-ruble proposal. The Banca d'Italia stands out in this category. As a medium-term transitional program to the transfer-ruble scheme, the Italian government has called for the formation of an East-West European Bank which would promote large-scale trade expansion and be capitalized through European and Arab foreign reserve contributions.

These qualitatively new international monetary mechanisms make bright prospects for Europe in the medium-to-long term. This, of course excepts France under the Giscard government, which rejects such financial mechanisms because of their political implications for the independence of Europe from the financial policies of the New York banking community. Without institutional arrangements for the new expansion of trade, no country can possibly deal with current deflationary developments except with the destructive options of still more deflation, or severely inflationary resort to the printing presses.

West Germany Economy Limpers Into 1977

West German economic activity took a downward turn in October and November, and the continuation of the production drop is heralded by declines in both foreign and domestic industrial orders. In monetary policy, the central bank continues to emphasize that inflationary measures will sabotage real growth, and has met the speculative expansion of the money supply with strict control of monetary aggregates. The Schmidt government thus far has also declined to introduce more than a token fiscal stimulus on the grounds that overall international economic contraction, the root of the problem, must be directly addressed to promote trade and investment.

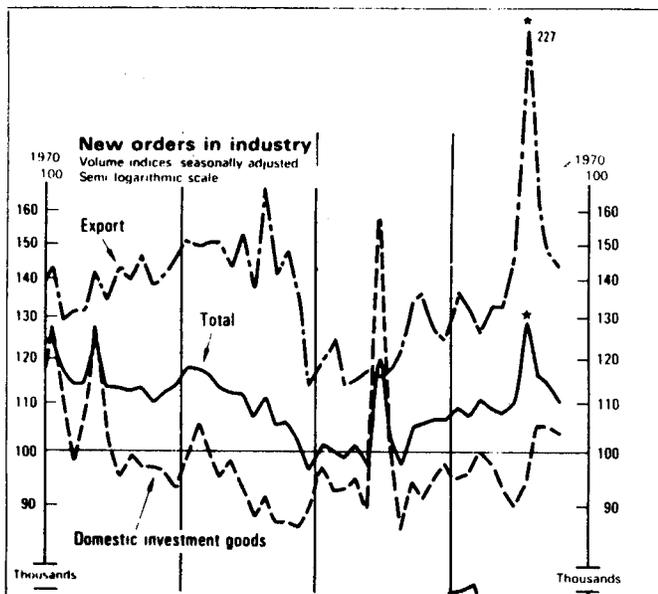
The unfavorable prospects for the West German economy must accordingly be qualified in view of the government's attempts to help major trading partners' recoveries, as exemplified by Schmidt's quiet support for the British policy of high-priority industrial growth, and by the new entente between Italy and the Federal Republic expected to be consolidated this month, possibly with trade-assistance credits, around the meeting between the heads of state of the two nations. Bringing North-South relations to a new level of mutual profitability and expansiveness was the keynote of the Chancellor's New Year's addresses, which specifically focused on economic as well as diplomatic relations with Arab oil producers.

Meanwhile, the key indicators for production and trade are negative. After rising somewhat above the "summer lull" level, industry's total output showed a 1 per cent drop in November from the downwardly revised October figure. Domestic manufacturers' view of the future is

Period	All Industries	Basic and Producer Goods Industries	Capital Goods Industries	Consumer Goods Industries
1975 Aug.	104.5	101.6	102.1	101.9
1976 Jan.	102.1	97.8	99.3	100.9
Feb.	111.0	109.2	108.8	111.1
Mar.	108.8	109.6	104.5	108.8
Apr.	117.4	118.8	113.8	117.3
May	116.3	117.9	115.0	113.0
June	118.2	119.5	117.8	111.0
July	99.0	108.6	88.4	91.7
Aug.	97.9	105.9	88.2	92.2
Sept.	113.3	115.3	109.1	113.9
Oct. (p)	120.2	116.4	117.0	126.0
Nov. (p)	119.1	(n.a.)	(n.a.)	(n.a.)

(p) — Provisional
(n.a.) — not available

Source: Deutsche Bundesbank



indicated by a switch from the relatively vigorous stock-building of the first half of 1976 to a running down of both primary-product stocks and commercial goods, and a refusal to place new orders, according to the December monthly report of the West German central bank, the Bundesbank. September-October maintenance of capital goods output was based partly on large one-shot foreign purchases and partly on auto-related domestic demand, both of which have abated, according to the latest incoming-orders. Total West German exports already declined absolutely by 3 per cent from October to November, with ominous slack-offs in deliveries to key trading partners in the European Economic Community (EEC), in an acceleration of the trend already seen over the third quarter.

Both the Bundesbank report and the December *Economic Outlook* published by the Organization for Economic Cooperation and Development (OECD) underline the dark prospects for exports — on which at least half of West German manufacturing activity depends. The OECD stresses the “weak outlook” for both foreign and domestic demand, citing the lack of prospective boosts from either trade, domestic consumption, or domestic capital investment. The Bundesbank — which for two years has promised a solid “upswing” — now points out that even those export sources which have not yet contracted may soon do so, and frowns at the effects of austerity among Western European trading partners. While the OECD’s forthrightness about the failed recovery seems to stem from a desire to promote West German reflation as the only solution, the Bundesbank is firmly maintaining its anti-reflationary policy.

Credit and Monetary Developments

The joint decision this week of the government and the Bundesbank not to give the dollar major support through foreign exchange market operations has been accompanied by a refusal to ease the pressure on the dollar by lowering West German interest rates significantly, and by stringent measures to “mop up” excess liquidity which was basically created by

continued currency inflows, expressing both the 9 billion mark 1976 current account surplus and speculative purchases of marks. At the beginning of this week, rumors mounted that the Jan. 3-4 slippage in West German interest rates betokened a commitment to easier policy. However, this turns out to be a short-term phenomenon due to the scheduled release of 25 billion marks from pension funds; when government bond sales did not suffice to absorb this additional liquidity, interest rates had to be temporarily dropped. Since October, the general approach of the Bundesbank, as described in the December report, has been to reduce banks’ free reserves by selling bonds and relatively illiquid paper, compelling the banks to use their reserves to obtain central bank money and Lombard credits, and, by early December, even forcing the overnight money rate above the Lombard rate. The expansion in the broadest-defined category of money supply, M-3, was clamped from 9.7 billion marks in October to 2.1 billion in November.

A concurrent curb on the money supply resulted from tight credit policies (during the second half of the calendar year.) Corporations, who are not only refraining from investments but are depleting their stocks, show a low level of loan demand; in some sectors like chemicals, companies used their 1976 increment in liquidity to make net repayment of loans since December 1975. While construction loans rose 1.5 billion marks from April to October, total net new credit to the manufacturing sector as a whole was only 4 billion. Yet between August and October, the Bundesbank reports, total private credit-taking rose 20 billion as a whole. (Public borrowing has scarcely increased at all.) At least 5 billion of this is accounted for by lending to foreign individuals and corporations, a category whose increase represents another short-term curb on domestic liquidity. As the upturn in unemployment and short-time attest, there can be no doubt that most West German corporations are not enjoying the comparatively favorable cash situation of the Big Three chemical producers, but credit expansion without corresponding world market pickup is not seen as a remedy.

State of Industry

Even a cluster of giant export orders in July and August failed to lift September-October total production over the April-June index, according to seasonally adjusted statistics, and November output fell 1 per cent. In the basic and producer goods sector, even before the running down of stocks became the norm, production has never returned from its July-August drop, owing to the weakness in steel in particular. Investment goods’ autumn flatness subsumed a downturn in machinery output despite the special export super-orders; stagnation in commercial vehicles; and relatively strong electrical engineering, which has been aided by large power-plant business but remains heavily export dependent and, according to the industry’s federal association, faces a slippage of its Mideast and East bloc business. The construction industry has been kept from shutting down by moderate government stimulation. The only sector with a post-summer semblance of sturdiness was consumer goods, but the auto thrust which sustained output is now coming to an end.

Incoming industrial orders fell across the board from September to October, and stagnated or fell again in November, when consumer goods orders dropped by 12.5 per cent, getting a jump on the German Motor Industry Association's prediction that 1977 would not resemble 1976. A 1 per cent drop in total orders, a 5 per cent drop in foreign orders, and a 16.8 per cent drop in orders for investment goods (3 and 9 per cent for domestic and foreign respectively) were the most notable developments in October; in November, incoming foreign orders were level, domestic orders fell .5 per cent, and the government now puts October-November decline in total orders from August-September at 2.4 per cent. November investment goods orders rose only 2 per cent after the previous 16.8 drop, and domestic investment goods fell another .5 per cent.

Moreover, the auto contraction immediately hits not only steel but branches like chemical which relied on auto for their own 1976 comeback. Unemployment has already reached 1.09 million at the end of December, through a 10.7 per cent monthly jump which is difficult to explain in purely seasonal terms. The number of employees on short-time grew by over 20 per cent in December to 213,000, partly because of steel layoffs.

Steel Lineup

It is the steel sector that most dramatically shows the crisis point being reached in both industrial policy questions and market trends. Rolled steel output was cut 800,000 tons in November; deliveries exceeded incoming orders, down 23 per cent from the first-ten-month average of 1976, so that orders on hand corresponded to the ultra-recessive level of November 1966. And in the same month, the country's steel export surplus reversed to a 100,000-ton steel import deficit! Fifty-five thousand steelworkers or 17 per cent of the total workforce, were on short time last month, followed by extended vacations. Cost squeezes and low capacity use have intensified financial pressures on the industry.

This industrial catastrophe intersects the battle over cartelization now occurring both domestically and EEC-wide. The Simonet compromise approved last month by the EEC basically entails a compromise with the West Germans which will be in effect for four months; then the voluntary quota arrangements will be reviewed to see whether more drastic measures are needed. The continental cartel subsumes four West German sub-cartels. The largest is Thyssen-Rheinstahl, politically dominated by Kurt Birrenbach, a Trilateral Commission member who leans toward de-industrialization policies. The second largest group is the "northern cartel" dominated by the Kloeckner works; after a recent purchase of the Flick family's Maximilian Huette, Kloeckner is now the second largest producer as a

corporate entity. Krupp-Bochum also belongs to this group, as well as the state-owned Salzgitter concern, which has connections with those West German and other European industrialists looking toward expanded East-West and North-South economic relations outside dollar channels. The third largest is the partly Dutch-owned Hoesch-Hoogevens, and the fourth, the "southern group," is based on the German-Luxemburg ARBED firm and Otto Wolff A.G. The cartel members are reported to agree not to produce certain categories of products, hold financial reserves for mutual assistance, share out orders, and shift sales contracts if necessary.

No overt fights have appeared among the groups, but Wolff, Krupp and Kloeckner as well as Salzgitter directors have been involved in export and expansion programs in other industries, including the energy sector, and it is possible that the cartel formation represents an effort to undercut Thyssen's domination of the market and of long-term policy. The federal cartel office has just issued a disapproval of a 15-month-old Thyssen merger with the Hueller-hille GMBH, a machinery producer, on the grounds that combined control over the machinery market would be about 30 per cent. Through Rothschild financing, the Thyssen corporation was allowed to take over as the dominant force in German steel after the 1923 inflation; today it accounts for 15 million out of 60 million in West German steel capacity, and since capacity utilization is certainly no more than 45 million at present, their control of the market is very substantial.

Trade Threatened

The question of whether steel output will be restricted or political ways will be found to expand it is being thrashed out against a background of an overall jeopardy to West German exports which cannot be concealed by impressive 1976 surpluses. After more than a 1 billion mark decline in exports to the rest of the EEC during the third quarter, or 3 per cent, October showed another 1 per cent minus from September.

October exports to Italy and Denmark rose despite those countries' import brakes, but Britain bought 4 per cent less and France, the single largest West German customer, 2 per cent less with far worse to come. The decline for OPEC purchases was 5 per cent and for the Comecon countries a full 10 per cent. These three areas are West Germany's key customers, not to be compensated for by increases on the order of 300 billion marks a piece in U.S. and non-oil Third World deliveries under present circumstances. The 3 per cent decline in total West German exports from October to November was accompanied by a 1 per cent drop in imports, which had been maintained by oil stockpiling, drought-induced food purchases, and the now-defunct stockbuilding by industry.

Oil Deals Give Italy Energy Independence

Overall output of Italian industry fell by 2.8 per cent during October, according to the last official numbers available, following a 10.8 per cent rise between January and September. The sharp October drop is ominous, because it indicates the giving out of the Italian public sector's year-long strategy of using the depreciation of the lira for as much export-led growth as possible. Italy's economy depended on permitting the large public-sector industries to run a gigantic deficit, in an ultimately unsuccessful effort to make a rise in exports compensate for the rise in raw materials costs owing to the large January 1976 devaluation of the lira. The public sector deficit could be carried only at the expense of a contraction of private sector activity, municipal and regional expenditures, and a rate of inflation that held steady at just over 20 per cent for most of the year.

However, there are strong, if partial, indications that the Italian economy is recovering, as a result of government policies adopted in October. Statistics dated Dec. 30, 1976, for the Piedmont region, which incorporates the Turin area and the core of Italy's heavy equipment and machine tool industries, show the most rapid economic growth in Europe. Piedmont production is 10 per cent above end-1975 levels, and unemployment has fallen from 100,000 in Oct. 1975 to 63,000 in Oct. 1976 and 45,000 at present.

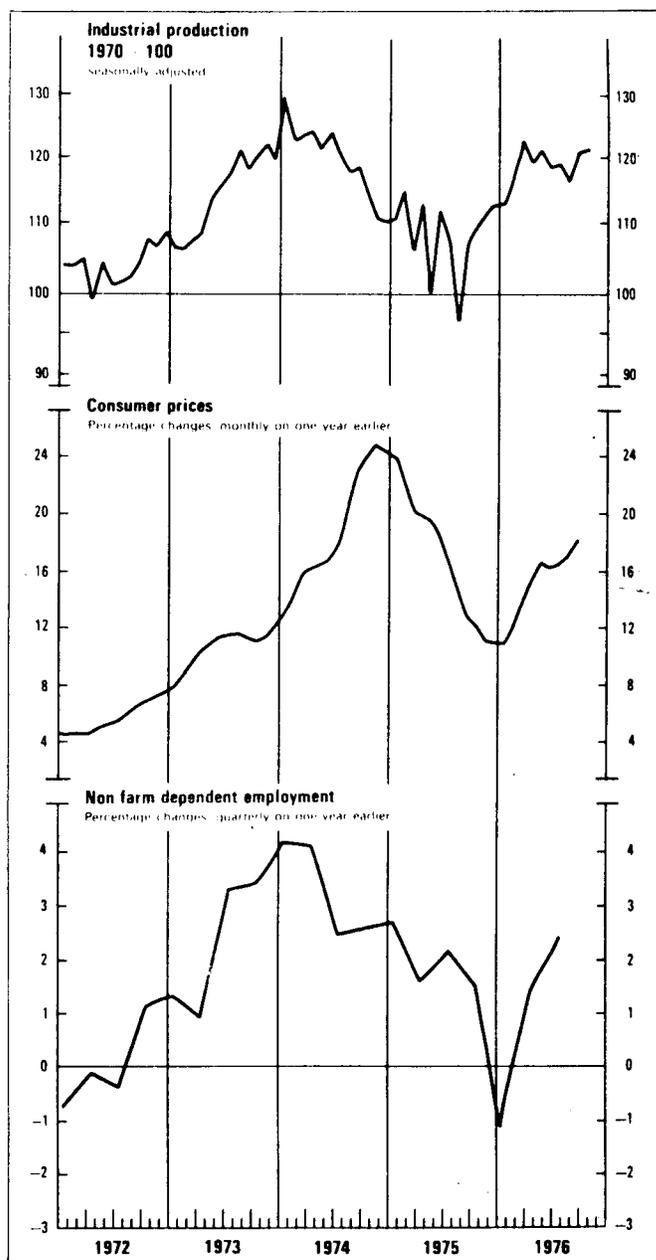
For the key Italian industries, concentrated in the public sector, the picture through late 1976 was heavily increased sales and heavily increased deficits. The largest public sector holding company, IRI, which controls most of the country's steel output, raised its sales to the equivalent of US \$ 11 billion, with a loss of \$80 million projected for 1976. However, the industries IRI represents benefitted heavily from the lire devaluation. For the latest breakdown available, Italy's balance on trade of manufactured goods (through August) yielded a surplus of \$6.5 billion, against a negative overall trade balance of \$3.8 billion.

In the textiles sector, the operating deficits of the key firms are projected to be considerably larger, despite a January to October improvement in output of 16.8 per cent. The textile division of the Ente Nazionale Idrocarburi (ENI), Lanerossi, is expected to run a significantly worse deficit than last year's despite rising output. Montedison's textiles division, Fisac, which exports 60 per cent of its production, increased its output over 1975 by 28 per cent, but also showed an operating loss. Another Montedison textiles subsidiary, Vallesusa, required a financial injection from a combined Italian and foreign consortium.

Overall, Italian industry attempted to compensate for increased costs, mainly due to the rise in the cost of imported goods, through increased exports. The large deficit of the public sector and the rate of central bank money-creation represents the margin of failure of this

attempt. Raw materials prices increased at a 48 per cent annual rate through the first eight months of 1976, equal to the thirty per cent depreciation of the lira plus the 20 per cent overall inflation rate.

Credit to industry increased, through the last figures available, at a 20 per cent annual rate, double the rate of growth of output. But the rise in credits is almost wholly attributable to the inflationary effects of lira depreciation, since most enterprises reduced their investment plans and hence their credit requirements. Although fi-



figures for the deficits of state-sector industries are not available, the net increase of indebtedness of the state sector as a whole ran at an annual rate of \$11.2 billion through September, or approximately 30 per cent of all state-sector expenditures. Within this overall figure, Bank of Italy handouts to state sector enterprises are estimated to make up half of the total figure, projecting from earlier Bank of Italy data.

To finance this deficit, the Bank of Italy was compelled to absorb 67 per cent of all Treasury bond issues through October 1976. This principally accounts for the rate of growth of the monetary aggregates of over 22 per cent per year.

Although complete figures are not available, industrial output seems to have followed the rule that those industries benefitted most that were in position to take advantage of the enhanced export competitiveness of the lira, including:

(Increase in output, January to October)

Textiles	16.8%
Chemicals	12.7%
Metallurgical products	7.4%
Steel	16.0%
Machine tools	3.0%

Italy's auto industry is a case in point: 1976 passenger car output rose to 1,565,000 vehicles, almost 50 per cent above the poor 1975 showing. Of total output, almost half, or 47 per cent, were exported. Most of the production and export increase occurred during the second and third quarters, after the lira depreciation had time to work into international auto markets. Ironically, Italy's largest producer, FIAT, is still showing losses. FIAT management has attributed its difficult financial position to rising labor costs, but the overall inflationary environment produced by the depreciation of the lira at the outset of 1976 is a more important factor. FIAT's holding company, IFI, will probably end 1976 with a \$14 million loss, indicating the operating deficits are not a phenomenon restricted to the public sector alone.

October represented the point at which the foregoing policy of high production and high deficits could no longer be continued. Italy's trade deficits began the year at 319 billion lira (\$366 million) in January. Under the "J-curve" effect of the lira depreciation, the deficit rose to a high of 708 billion lira in April (\$813 million), and then fell gradually to reach a surplus of 105 billion lira (\$121 million) during July. International markets are shown to have been, at least temporarily, responsive to major changes in the lira rate, over a three-month lag. But Europe as a whole began a stagnation in the third quarter and an apparent downturn during the fourth quarter of last year. International market conditions worsened, and the Italian trade balance worsened in tandem, to a deficit of 513 billion lira in September and 330 billion lira in October. Italy's deficit on account of petroleum is double the overall trade deficit, indicating the country has been in substantial surplus on its non-oil trade account.

But by October, the country's international reserves had fallen to the point that foreign exchange holdings

covered no more than three months' exports, and a collapse of the lira comparable to the January 1976 run threatened. In response, the government imposed stringent foreign exchange controls, including the centralization of all foreign exchange transactions through the Bank of Italy, and a 7 per cent tax on all foreign exchange transactions. In addition, the Italian government began an extraordinary series of initiatives (see below) which resulted in considerable expansion of the country's export potential and a rapid inflow of deposits from oil-producing countries; the latest reports show Italian reserves to have risen by \$1 billion since October.

Temporarily, however, the credit restriction policies which the government was compelled to take in defense of the lira produced immediate cash shortages for the state oil and chemical giant ENI, and cut cash subsidies for Montedison, which is partially state-owned. The private sector, especially small and medium-sized business, was placed in jeopardy through lending rates that exceeded 25 per cent for prime customers.

It is not possible to estimate the levels of economic activity over the fourth quarter of 1976. Two separate factors are at work: the sharp credit-austerity the Andreotti government imposed on the restrictionary side, and the prospect of expanded trade through direct government-to-government initiatives on the expansionary side.

The measures taken by the Italian government to expand the country's export potential are best illustrated by the commitment the government has made in securing enough crude oil imports from the Arab oil producing nations and the Soviet Union to guarantee both domestic consumption levels as well as to increase the exports of refined oil. Italy has either already secured or is close to securing direct state-to-state deals, bypassing multinational interference and allowing it to establish energy independence.

These state-to-state deals assign ENI (Ente Nazionale Idrocarboniaria, the state-owned oil company) the major responsibility for refining and export. The successful completion of the current Italo-Iranian and Italo-Saudi Arabian negotiations along with already standing agreements with Libya, Algeria, Iraq and the Soviet Union (see chart) would lock up in direct deals over 84 million tons — or 90 per cent — of Italy's crude oil imports.

The prospects for the realization of the Iranian and the Saudi Arabian imports are good. It is interesting here to look at the two deals in greater detail. The Dec. 29 *EI Moujahid* announced the signing of the deal between the Iranian state owned oil company NOIC and ENI (which has been under negotiations for nearly a year). The ENI-NOIC agreement stipulates that ENI's extensive refining and distribution facilities in Europe, excluding Italy itself, and the Third World will be taken over by a joint (50-50) ENI-NOIC company. This means the immediate injection of \$100 million of Iranian capital into the Italian economy. NOIC has agreed to directly supply 4 to 5 million tons of crude oil per year to the new company. A direct deal of another 14 million tons per year to Italy is also being mooted. Furthermore, ENI president Pietro Sette has scheduled a trip to Iran this month. Sette is expected to discuss the additional 14 million ton export as well as to arrange for NOIC to take Italian industrial

ENI GROSS CRUDE OIL IMPORTS (IN MILLION TONS)					
	1973	1974	1975	1976	1977 (proj.)
Libya	4	4	8	12	12
Iraq	20	19	19	15	15
Algeria					5
USSR	3	—	3.3	4.5	5
Iran					(20)
Saudi Arabia					(27)
Total	27	23	30.3	31.5	84

exports in barter for crude oil.

The prospects for the Saudi Arabian deal are as promising. The Dec. 31 issue of the Journal of Commerce announced that Italian Trade Minister Rinaldo Ossola and top-level ENI officials are discussing plans to have the Saudis buy out and take over the operations of the multinationals — Exxon and Mobil — in Italy. (Both multinationals have been fielding the rumor that they intend to abandon the Italian market). The Saudis could in return guarantee 27 million tons of crude oil in direct deals for export to Italy yearly.

Oil exports represent only one — albeit it is a determining — factor of the Italian government's overall economic policy. The FIAT-Libya deal announced Dec. 2 is a paradigm scheme for future agreements. The FIAT-Libya deal was constituted by Libya's purchasing of 10 per cent of FIAT stock, worth \$300 million. FIAT in turn will be constructing auto and commercial vehicle production plants in Libya for export to the Third World.

An executive member of the Libya Arab Bank in Rome on Dec. 4 lauded the deal stating that Libya does not merely look for financial operations but for investments, but saw the deal as opening up to continued multilateral arrangements with Italy in many different fields. The official Libyan communique issued Dec. 3 stated that the Libyan participation means a close cooperation as the first step towards a new international economic system based on development and not exploitation.

Since the signing of the FIAT-Libya deal, enthusiasm has been voiced by other developing countries as well as the Soviet Union to escalate multilateral agreements. On

Dec. 16, ENI's chemical subsidiary, SNAM Progetti announced plans for the construction of a fertilizer plant in India which would be funded with Soviet loans. The fertilizer plant will be located at Trombay and will cost \$45 million.

Dec. 20, the weekly *Tempo Illustrato* announced a four-way agreement between the Soviet Union, FIAT, Libya, and Algeria for the construction of an auto plant in Algeria.

Signals of a Boom

There are already economic indications that promises of increased exports foreshadow an economic "boom" in Italy — based on real production.

This is already being seen in the so-called mini-economy which the Italian press is reporting for the Piedmont region. The Piedmont region (Turin) traditionally regarded as the economic "bellwether" region in Italy is showing signs of recovery — based on increased exports. The leading Piedmont daily *La Stampa* reported Dec. 30 that industrial production for 1976 in the region was up by 10 per cent compared to industrial production figures for 1975. Underemployment for 1976 is down in the region by 55.5 per cent as compared to 1975. Unemployment figures for Oct. 1976 showed unemployment down. In Oct. 1975 there were 62,767 unemployed; Oct. 1976 about 45,000.

There are presently two factors which corroborate the optimism concerning Piedmont. The two industries of Piedmont — FIAT and Comau (a consortium of machine tool companies) are both working at full capacity. Whereas FIAT has signed the deal with Libya, it has not yet begun implementation of the deal. Comau on the other hand has begun to fill orders particularly for the Soviet Union. Comau president Vincenzo Buffa commenting immediately after the signing of a \$132 million contract with the Soviet Union stated on July 9, 1976, "Just last June the machine tools balance closed negatively ... but the situation is changing for the better. Contacts with the Soviet Union, Poland, and the internal market have put us back up there."

Expecting a real recovery, based on expanded exports of autos, tractors, and machine tools, the Italian government has taken measures to insure the maintenance of a skilled workforce in Piedmont, injecting major amounts of money to increase employment in the services (tertiary) sector to insure that skilled workers will not emigrate. A Piedmont regional government proposal sees the creation of 124,000 industrial jobs over the next four years.

British Focusing on Export Boom, To Spur Industrial Recovery

Faced with a domestic situation which at best looks hopelessly bleak and at worst a complete disaster, the government of British Prime Minister James Callaghan wants to carry through a policy of export-led growth through revitalization of the manufacturing industry in a medium-term perspective spanning the next two fiscal years. As outlined by Chancellor of the Exchequer Denis Healey in his Dec. 15 "mini-budget," and reiterated by both Messrs. Callaghan and Healey in New Year's speeches to the country, 1977 will be a "pendulum year" in which resources will be channeled from consumption to manufacturing investment in an attempt to break the historical cycle of a collapsing pound, high interest rates, and low industrial development.

The choice, as laid out by the government, is not one of a "productive" private sector versus a "wasteful" public sector, but the necessity to forge a productive public sector which will form a strong base to generate the economic activity which will allow for maintenance of basic social services. On this basis, the British government rejected the original suggestions by the International Monetary Fund and outside commentators like Milton Friedman to cut government spending by up to £4 billion. Such a deflationary policy, the government charged, would insure the continued collapse of the country's economy. In the "Letter of Intent" to the IMF for their \$3.9 billion loan, Healey stressed that although spending cuts of up to £1 billion would be made in the fiscal year 1977-1978, any further cuts would be dependent on the extent to which international economic recovery afforded British companies the opportunity for export expansion. Healey told the House of Commons on Dec. 21, "These cuts are necessary for one reason only — to give the economy the best chance of attaining a higher sustainable level of output and employment as fast as possible." He said bluntly that there was "not now and never had been any economic case for massive deflation on the scale that some critics had demanded."

The necessity for the government to succeed in its strategy can be seen clearly in the recent collapse of sterling (its effective devaluation of 20 per cent between March and December 1976 is greater than even the 1947 or 1967 devaluations) and the crisis this caused in the spiraling of the money supply and subsequent investment crunch for industrial finance. While it is true that industry enjoyed a short-lived export "boom" in the fourth quarter of 1975 and first half of 1976, this was due largely to the advantage gained through the collapse of sterling and more than compensated for by the effect of rising import costs for raw materials. Hope of any industrial recovery led by domestic demand is nil, given the government's stated intention to stick to the social contract with the trade unions, probably holding wage increases to the 5-7 per cent range, while attempting to

bring inflation down from the current level of 14 per cent to around 10 per cent per annum.

Bearing Fruit?

Already the government's strategy appears to be bearing fruit. After the plunge of sterling to a low close to \$1.50, the pound has recently recovered to the \$1.70 level. In December, reserve figures show that the country's stock of gold and foreign currency fell only \$1,027 million to \$4,129 million, despite the repayment of \$1,545 million of the tranche arranged through central banks last spring. This indicates an underlying inflow of at least \$600 million and perhaps as much as \$750 million into the reserves, the biggest single influx of money into Britain for a number of years.

Knowledgeable sources in the City of London are crediting the Arab oil producers with strong support for the pound, which coincides with a general improvement of Britain's trade with the Mideast countries to the point where the *London Times* of Jan. 6 was forced to admit that the " Saudis (are) suddenly buying where once they would automatically have bought American..." In addition to the expansion of Arab country trade, which also includes major contracts recently with Egypt and Iran, the British are consolidating their trade agreements with the East bloc, and Callaghan has launched a major campaign to exploit the £1 billion credit tranche offered the Soviets by former Prime Minister Harold Wilson in 1974 for purchases of British goods.

However, in an attempt to finance the government debt and prevent explosive growth in the money supply, the government has followed a policy of such severe credit restriction that industrial investment has been virtually impossible. By maintaining high interest rates to boost the sale of government paper ("gilts"), the government has all but excluded industry from bank borrowing. Additionally, the potential boost to exports from the fall in the value of the pound has been more than wiped out by the corresponding rise in raw material prices, underlining the critical nature of the government's export strategy.

Public Debt

The Public Sector Borrowing Requirement (PSBR) has been kept well in the bounds laid out by Healey in his July 1976 mini-budget, spurring market confidence in the government's desire to keep public spending under control. The PSBR in the first half of 1976 was £5,150 million — even slightly below Healey's estimate of a £11,500 million total PSBR for 1976. In his Dec. 15 mini-budget, Healey announced that the government would be reducing the PSBR to £58,700 million in 1977-78 (a

	1975	1976					
		Jun	Jul	Aug	Sep	Oct	Nov
PRODUCTION							
Industrial Production (1970-100)	100	100.2	101.8	100.8	102.4	102.5	—
Capital Spending (In £ million)	434 (I-IV avg)	408 (III)	—	—	411 (III)	—	—
Consumer Goods Production (1970-100)	110.6 (Dec)	112	106	100	100	—	—
Basic Materials (1970-100)	256.7 (Dec)	—	—	—	344	327.8	331.9
Steel Production (weekly avg 1000 tons)	390 (year)	433	367	373	430	457.7	487.1
CONSUMPTION							
Retail Sales (1970-100)	178	—	—	204.3	206.4	206.8	—
TRADE (£ billion)							
Imports	21.97	2.67	2.71	2.58	2.70	2.58	2.79
Exports	18.77	2.17	2.06	2.16	2.24	2.29	2.29
Visible Balance	-3.20	-0.50	-0.65	-0.42	-0.46	-0.29	-0.50
Visible Balance Jan-Nov 1976: -3.90							
MONETARY POLICY							
Minimum Lending Rate (%)	11.25	11.50	11.50	11.50	13.0	15.0	14.5
Dec. 24, 1976: 14.25							

reduction of £2 billion) and by another £3 billion in the following year. Towards this end, cuts in government spending of £1 billion and £1.5 billion in 1977-78 and 1978-79 respectively were announced to hit defense, food subsidies, and regional employment subsidies most heavily. The government's success in keeping the PSBR within forecasted levels reflects the fact that local authority spending is being forced to comply with budgeted levels, which in most areas means severe cuts in basic health, education, transport, and other social services.

To finance central government debt, the Bank of England raised the Minimum Lending Rate (MLR) to 13 per cent from 11.5 per cent on Sept. 16 in an attempt to spur sales of gilts, which had been lagging during the summer months. The Bank of England's move did create a short-term demand for gilts, but the continued collapse of the pound brought fears that MLR would be raised even higher, and gilt sales slackened. Net sales of gilts in the third quarter amounted to only £590 million.

The resultant bulge in bank lending to the private sector (£650 million in mid-October), largely due to worries of further credit restriction and trade financing, sparked the government to raise the MLR to an all-time record of 15 per cent and call in a further 2 per cent in special deposits. Gilt sales revived with this move. In addition, the Bank of England introduced the "corset," the prohibition of bank lending in sterling for trade with non-scheduled areas and for trade not covered by the exchange control commodity scheme. This move is expected to generate a once-for-all inflow of funds amounting to several billion pounds, in the estimate of bankers. Sale of gilts has remained high even after the

lowering of the MLR to 14.5 per cent in the beginning of December.

The government's policy on gilt sales is a reflection of its overall determination, as made clear to the IMF, to keep the growth of M3 (money supply on the wider definition) to 12 per cent in the current year. While figures for the earlier part of the year indicated that the target was being adhered to (growth of £735 million in the first quarter and £1,550 million in the second quarter), the jump in the M3 in the third quarter by £2,120 million (despite the fall of the central government borrowing requirement from £1,985 million in the second quarter to £1,790 million in the third) showed that the government's strategy was in danger of failing. Hence the introduction of the measures reported above.

The Balance of Payments

In the three months to November, the deficit on visible trade was £1,243 million compared with £1,163 million in the previous three months. In November itself the current account was estimated to be in deficit by £310 million, with the deficit on trade goods at £510 million and a surplus on invisibles of £200 million. A large part of the deficit is accounted for by a very sharp rise in the oil import bill of £146 million from the unusually low October figure. Imports were up sharply by 4 per cent in the three months to November, largely due to the food imports required because of the summer drought and the higher raw materials costs due to the collapse of the pound. North Sea oil production was 3 million tons in the third quarter of 1976 (15 per cent of the domestic requirement) and reduced the import bill by £160 billion.

In the recent past, there was a sharp increase in

exports starting in the third quarter of 1975 and extending through the first half of 1976. Exports rose by 14 per cent during this period, and the proportion of income due to the exterior balances was higher in 1975 — and grew further in 1976 — than in all but one of the preceding 20 years. However, most of this increase was stimulated by the relative competitiveness of British industry due to the collapse of the pound. The general collapse in world trade in the middle of 1976, in addition to a leveling off of destocking in British industry and the concurrent need to import relatively more expensive raw materials, indicates that without the special export arrangements between Arab, East bloc and Third World countries of the kind the government is now contracting for, an improvement in the trade balance is extremely unlikely.

Industry: Production and Investment

The latest estimates of the Gross Domestic Product (GDP) show that there was little change in the level of economic activity between the second and third quarters of 1976, and that there has been no growth in output during 1976, following the improvement in the last quarter of 1975. Industrial production fell by 0.3 per cent in the third quarter after rising slightly by 1.0 per cent in the second quarter. Industrial output in November was at 102.5 (1970 equals 100), only marginally up from 102.4 in October.

Those sectors which stand to benefit most from the government's export push show the best production and investment levels. As can be seen from the accompanying table, steel production registered its highest level for 20 months in November, up a full 7.5 per cent from October. There has been a similar increase in metal manufacture and vehicle production, especially tractor production, following major trade deals with Poland, Iran and Egypt.

There was a period of heavy destocking during 1975 and early 1976, with a drop-off in the level of destocking in late 1976. The volume of stockbuilding fell by £27 million in the third quarter compared with a fall of £118 million in the second quarter. A continuing decline in the level of stocks held by the construction industry was the principal factor behind the third quarter fall; manufacturers and retailers both increased their level of

stock marginally by £5 million. This is deceptive however, since the manufacturing industry in particular will hold raw materials as a hedge against the pound when it is falling on the markets. In addition to financing trade on the expectation of further pound collapse, it is likely that the increase in bank lending to the private sector went to finance the build-up of these stocks.

Capital expenditure in industry rose by nearly 4 per cent in the third quarter of 1976, but this was due primarily to a sharp increase in North Sea oil investment. As indicated above, bank advances to industry in October were not used primarily for investment. Similarly, although the mini-boom of 1975 added to overall company profits, these funds were used to improve cash flows after massive accumulation of liquid liabilities (mainly bank borrowing). Fixed investment by manufacturing, distributive, and service industries (in 1970 prices) was in the neighborhood of £4,300 million in early 1974, but had plunged to £3,300 million by early 1976.

A recovery is expected, given the ability to improve exports — the latest estimates from the Department of Industry forecast a rise of 10-15 per cent in the volume of new investment by manufacturing industries and 5 per cent growth for the distributive and service industries — but the government's raising of the MLR raised severe questions about the ability of industry to borrow. Although the level of private industrial fixed investment in the first quarter was smaller than at any time since 1968, it is estimated to have risen 2.5 per cent in the second quarter and .75 per cent in the third quarter. Metal manufacturing (spurred by export prospects) showed a 10 per cent rise in the level of investment in the first three quarters of 1976 over 1975, but large falls in investment levels were recorded in textiles (29 per cent) and paper, printing, and publishing (21 per cent).

Consumer Spending

According to government estimates, virtually the entire rise in consumer spending from 1975 to 1976 is accounted for by a wave of buying by continental and other foreign shoppers.

France Outlook Grimmiest in Europe

French Prime Minister Raymond Barre's severe deflation program, inaugurated last September, has succeeded in giving the coup de grace to an already faltering French economy. By the end of first quarter 1976, the rapid upswing in French industrial production, kicked off by the fall 1975 pump-priming program and the cyclical rebuilding of rundown inventories, had already begun to peter out. This showed up initially as a flattening in industrial orders during the second quarter, followed by a plunge in the third quarter and an increase in unsold inventories. Hardest hit was private capital

investment, which tapered off sharply in the spring; order books in the critical capital industries dwindled from that point on.

Then, in September, Barre's "anti-inflation" gambit — taken in the context of an already flagging internal consumption and the onset of austerity programs in France's European and Third World trading partners — threw the French economy into a virtual tailspin. In October, industrial production dropped 4.7 per cent from the previous month; unemployment soared nearly 30 per cent from the 1976 low of 808,000 reached in July to

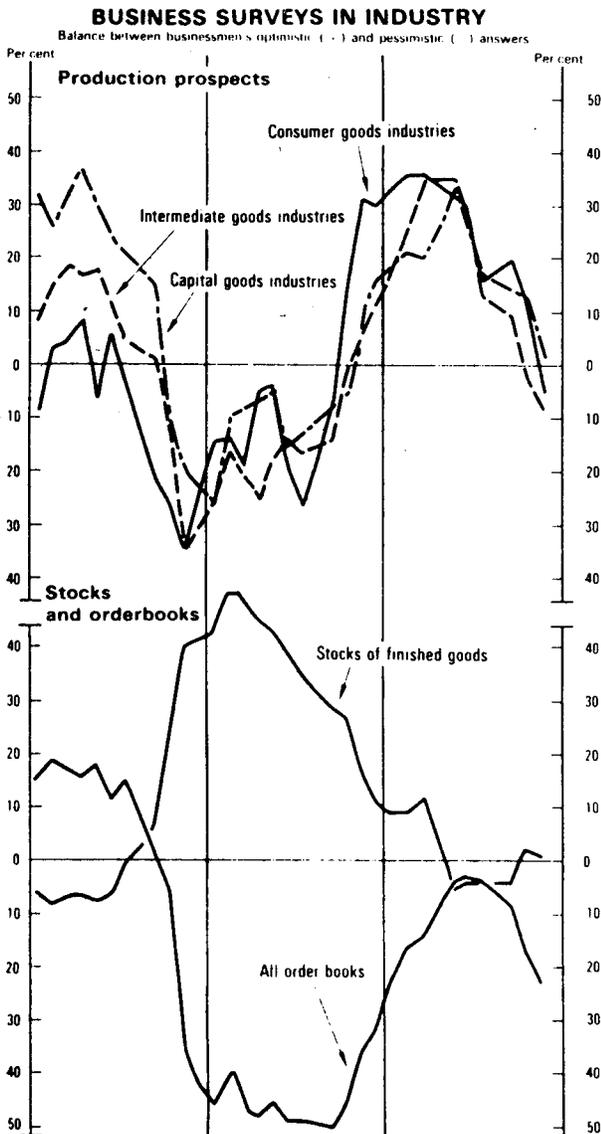
1,041,000 in November, and the government is expecting the jobless total to hit 1,200,000 by February.

While Italy, and to a lesser extent Britain, should be able to stabilize their economies, at least temporarily, through a number of large-scale triangular trade deals, involving Comecon and OPEC countries, French President Giscard d'Estaing's pro-U.S. orientation and known aversion to the new world economic order precludes an aggressive French triangular trade policy.

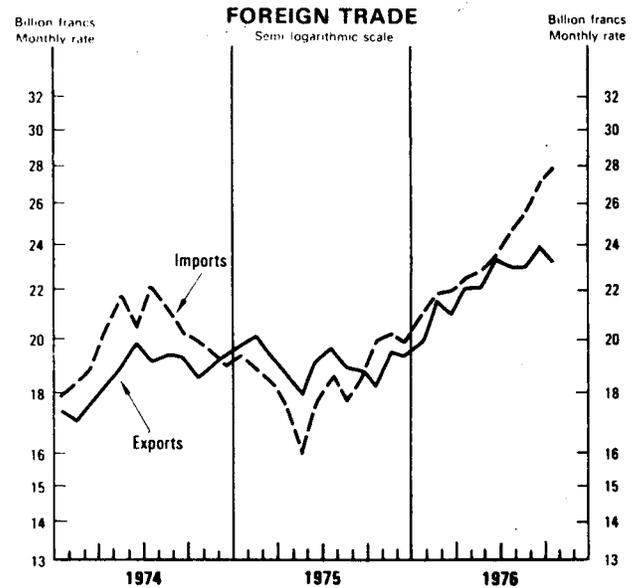
The \$1 billion deal concluded last week between a group of French and Italian engineering firms headed by Technip, a French government-controlled company, and the Soviet Union, in which Technip will build the Soviets two petrochemical plants in exchange for petrochemical products, is one of a few exceptions.

Moreover, British Prime Minister Callaghan has made the regeneration of basic industry his first priority; Giscard's government is undertaking the liquidation of

France ran up a record \$4.25 billion trade deficit in 1976. Imports soared, reflecting manufacturers' efforts to restock raw materials and fuel needed for further expansion, and a 30 per cent jump in the prices of imported raw materials. Exports fell off due to depressed conditions in France's European and other trading partners, and a severe drought which reduced the supply of agricultural products available for export. (Source: *National Institute for Statistics and Economic Studies*)



The French economic upswing ran out of steam by the second quarter of 1976, as indicated by the above survey of business opinions concerning production prospects, orders and stocks. (Source: *National Institute for Statistics and Economic Studies*)



the French steel industry — beginning with this week's announcement that the 3 billion francs to be injected into the Lorraine steel region in 1977 will be used *primarily* for phasing out 14,000 jobs.

For all the above reasons, French economic prospects are more grim than for any of the other leading Western European economies. The country ran a record \$4.25 billion trade deficit in 1976: any further deterioration will leave the country to the whims of the foreign exchange markets, eventually forcing Giscard to go hat in hand to the IMF for a bail-out loan. A French IMF application would, in fact, be welcomed with glee by members of Carter's economic "team," such as Treasury Under-Secretary appointee and former Brookings Institution economist C. Fred Bergsten, who has been pushing for still greater French deflation as part of an overall "de-synchronization" policy (i.e., "strong" countries reflate "weak" countries deflate). The crisis scenario developed by certain New York commercial banks of mass capital flight from France followed by a collapse of the franc has so far failed to materialize, mainly due to the even greater weakness of the U.S. dollar.

Barre's Deflation — More to Come

The next phase of Barre's "anti-inflation" policy should prove even more onerous than the last. In 1976, the government budget deficit was slashed by 40 per cent, from 35 billion francs in 1975 to 22 billion in 1976, representing a large cut in real government spending and a tax hike. In 1977, the Giscard government aims for a "balanced budget." In 1976, money supply (M-2) growth was reduced from an annual rate of 17 per cent in

the first quarter to a mere 6.6 per cent in August and September (the latest months for which figures are available). In 1977, the government will hold money supply growth down to 12.5 per cent, while allowing only a 5 per cent expansion in credit supplied to the economy by the largest French banks.

These tight credit conditions have already made borrowing costs prohibitive for French corporations, many of which are already dangerously illiquid. The bellwether "day-to-day money" rate, the rate at which banks acquire funds in the money markets (comparable to our "Fed Funds" rate), soared from 6.36 per cent in January to 10.75 per cent in December, compelling the banks to jack up their prime lending rate to 11.65 per cent (at a time when the U.S. prime rate was falling to 6 per cent and the Fed Funds rate to under 5 per cent!). French firms have been forced to borrow on the Euro-dollar markets instead, hiking their total outstanding foreign debt to a whopping 20 billion dollars.

Meanwhile, the government will attempt to ban "excessive" wage increases — defined as increases greater than the rise in the cost of living — and has threatened to penalize companies through cut-offs of bank credits, the suspension of state financial aid, and blockage of price increases.

Capital Goods and Steel

Capital spending has clearly not thrived under this austerity regimen. The volume of new investment in plant and equipment rose by a meager 3 to 4 per cent in 1976, and even this was mostly in the public industry sector; the latest government survey indicates a 4 per cent cut in 1977.

Most indicative is the plight of the French steel industry: Crude steel production dropped 5 per cent in October, following a substantial climb earlier in the year. Orders are running 40 per cent below the 1974 peak, and the country has been turned into a *net-steel importer* as the result of cut-throat price competition with Japanese, West German, Italian and British producers.

At least 23,000 steel industry layoffs are slated to go into effect in 1977. The government has allocated 3 billion francs to the Lorraine industry — half of which must be used to cover retirement and unemployment benefits for the phasing-out of 14,000 workers. So that the program

will not be a financial burden, Giscard has proposed that the remaining workers repay the 3 billion francs by buying shares in their bankrupt companies!

"Consumer Confidence" Collapse

With the surge in unemployment and continued double-digit inflation rates, French household consumption dropped off in the third quarter. The latest government survey indicates that, by November, "consumer confidence" had ebbed to a very low level indeed. Thirty-seven per cent of those interviewed expected a fall in living standards in the coming months; 43 per cent foresaw a further rise in unemployment.

Although inflation had moderated to an annual rate of "only" 9.6 per cent of November — down from 11 per cent — the OECD projects another price surge in the first quarter of 1977 due to the lifting of the government's price freeze and heavy increases in wholesale food prices due to the European drought.

Auto Decline

The end of the consumer spending "upswing" has already taken its toll on the auto sector. Although French auto production rose 10 per cent over the depressed 1975 level, for a total of over 3 million vehicles, November production levels of 268,000 represented a substantial drop from the 310,000-plus monthly levels achieved earlier in the year. Auto orders dropped off markedly, starting in July, with the simultaneous decline in domestic registrations and in exports. Auto imports into France jumped 40 per cent over a year ago, reflecting Japanese "dumping" and the greater competitiveness of Italian and British models due to the depreciation of their currencies.

The chemical and textiles industry show even greater stagnation; only the electrical sector has shown a continuously-rising pattern in production and order, due to nuclear power plant and other energy-related projects.

The most decimated sector is residential housing construction. Housing starts dropped 6 to 7 per cent in 1976, recording a total of only 364,000 units in the first 3 quarters — the lowest level since 1970. Lower-income housing was hit worst, showing an 18 per cent drop. Further declines are projected in 1977 due to government spending cuts and the credit squeeze.

The European Commitment to Nuclear Power

The present nuclear fission power commitment of major European governments and industry represents one of Europe's most heated political issues. Following the devastating impact on European industry of the 1973 oil price rise, the political commitment to develop fission energy got substantial impetus in several European countries. Already by 1976, national electric power from nuclear sources represents a proportionally significant share of total electric power:

- Switz.—18% of total electric output in 1976
(1,006 Megawatt electric)
- W.Germ.—15% (7,300 MWe)
- Sweden—13% (3,180 MWe)
- U.K.—10% (8,097 MWe)
- France—10% (3,320 MWe)

These figures compare with a figure of 8.5% share for the U.S. derived from nuclear sources in 1976.

Under present national sector commitments up to 1985, nuclear power will account for 67 per cent of total French electrical output. In West Germany the present projected commitment nationally is for 30 per cent, while in Sweden it represents some 40 per cent.

Given the scale of the effort and the fact that such programs involve Europe's most advanced industrial, engineering and scientific resources, it is understandable that the fission issue in Europe is at the forefront of the growing fight for technology-intensive development of European industry. Mr. Leif Hjaerne, director of the Swedish ASEA-Atom reactor company writes in an Op Ed in the Svenska Dagbladet of Dec. 30 entitled, "Terrifying Green Ideology" that the concern of some political parties for ecology at the expense of nuclear development is "only a new anti-intellectualism." In the Italian daily l'Unita, Mr. Felice Ippolito, one of the earliest advocates of an Italian nuclear fission program, attacks "ecologists who want to suppress industrial civilization and regress to neolithic societies." In a number of European countries sensationalist press coverage of anti-fission groups such as Friends of the Earth, was coordinated with highly suspicious instances of sabotage at the French uranium extraction installation and at the Swedish Ringhals fission reactor in early November. These instances have been used by certain media to drum up scare campaigns against nuclear power.

This report will concentrate on the French and West German fission efforts, the two most substantial in Europe currently. Both are active in the international export of fission technology.

FRANCE

France presently has the world's second largest program for installed nuclear capacity by 1985 and the leading "breeder" reactor program, the Phenix in Marcoule, France. This program has been in operation for more than two years and has produced more than 3 billion KWh leading to the recent initiation of a Super-Phenix fast breeder reactor project to be built with the participation of West Germany and Italy.

In 1974 after the oil crisis, the decision was made to increase the national nuclear power program resulting in work begun in 1974-75 on 12 additional nuclear stations, all using Pressurized Water Reactors (PWRs) built by the French under license from Westinghouse. By 1977 construction is to begin on 12 more PWRs of the same size to be operational by 1982-3. The cost of the entire program is estimated at 73.9 billion Francs.

The entire French nuclear program is centralized under the state-owned Commissariat à l'Énergie Atomique (CEA), including both military and civilian aspects of the program. Development of large reactors is centralized under Framatome which is owned jointly by the large steel group, Creusot-Loire (51 per cent), CEA (30 per cent) and 15 per cent Westinghouse, with the remainder of the Westinghouse interest to be transferred to Creusot-Loire in 1982 when the license agreement expires. The CEA has significantly formed the state-owned COGEMA to coordinate all vital "fuel-cycle" activities, with a reprocessing facility at La Hague and at Marcoule both of which are part of the major European nuclear reprocessing consortium, United Reprocessors involving in addition to the CEA, KEWA a West German industrial group and British Nuclear Fuels Ltd. Cogema is selling its reprocessing know-how abroad including plants in Japan, and proposals to sell reprocessing plants to South Korea and Pakistan. The latter two have reportedly been the subject of direct intervention by the U.S. State Department to stop the sales, though as of this writing the Pakistan deal is proceeding.

WEST GERMANY

By any objective standards the West German nuclear industry should be at a take-off point for both domestic and foreign orders. The West German industry, which is concentrated in the Kraftwerk Union (KWU) includes the world's first operating 1300 MWe (mega watt electric) reactor unit, the Biblis "B" and a year's successful operation of the 1200 MWe Biblis "A" PWR. The German nuclear industry is, according to all professional estimates, among the most exacting in safety terms in the world.

KWU, which is now wholly owned by Siemens after AEG Telefunken sold its interest last month, has just signed a major deal to supply eight reactors to Brazil in a deal that initially will mean 12 Billion D-Marks for KWU and estimated some \$5 billion to the German economy over the next two years. Importantly, the size of the deal, which has provoked hostile political pressure from the U.S., will allow the minimum economically feasible

operation of the industry including a fuel cycle unit. Other KWU contracts are held with Iran, Argentina, Spain and Switzerland.

KWU in addition to participation in several other groupings, owns Interatom which has major responsibility for advanced reactors, including fast-sodium-cooled breeder at Bensberg.

Development of the West German nuclear program, despite the excellent safety requirements, has been somewhat slowed due to the mobilization of various "environmentalist" groups such as the "Citizens' Initiative" group, whose protest has been against the concentration of nuclear stations in areas especially the Rhine which already have high industrial density. These arguments are being answered by such efforts as ongoing experiments using thermal "waste" of reactors to heat soil making it "super-productive," as well as by demonstrations by trade-unions in support of continued fission plant construction.

Scientists, Governments Press France to End Fusion Blockade

Political and economic pressure has increased in Europe against widely acknowledged attempts by the French government of Giscard d'Estaing to stall development of the European Common Market (EEC) thermonuclear fusion research project, the so-called Joint European Torus or JET. Late last month the French government effectively blocked a decision on the location for the JET fusion reactor, causing widespread speculation that the project was effectively dead.

Il Fiorino, the Italian financial daily reports in its Jan. 5 issue that the West German government is pressuring France to stop its sabotage of the \$200 million JET project by offering, among other things, to locate a major radiotelescope project in France in return for agreeing to EEC majority decision as to the location of the JET.

A top U.S. fusion scientist told this press service that general sentiment in the European scientific community is to locate the JET at the already substantial Culham research Laboratory in Abingdon, England. The Culham facility, which has since 1973 been the location for the international JET planning group, has six different magnetic confinement systems, the only facility in the world with such an array in one location. Furthermore, it is near adequate large power supplies, necessary for construction of the large JET.

The U.S. source confirmed that there was firm agreement among West German, as well as French scientists to locate the JET at Culham and that it was "bureaucrats" of the French Atomic Energy Agency, recent Giscard appointees, who opposed the Culham location. Physicists generally agree that there are only three possible locations for the JET project: the Culham site, Garsching, near Munich in West Germany, and the

Ispra research facility in Italy near Milan. Further, the Culham location of the three is the only one which would not endanger the continuance of important alternative lines of research such as the current hi-beta magnetic confinement research ongoing at Garsching.

'Fusion Europe's Last Chance'

Der Spiegel: Jan. 3, "Last Chance for Europe" — Excerpts from an interview with fusion planning director Prof. Donato Palumbo:

Spiegel: Professor Palumbo, when in your estimate will the first fusion reactor produce current in Europe, and how much?

Palumbo: It could satisfy a considerable portion of Europe's energy needs. Most experts believe that it will get that far in 30 years. I am more optimistic: if fusion is possible at all, it can be done sooner than that.

S: Now the construction of the experimental fusion installation, "JET," is threatened with failure. Has the project gone down the drain with the French insistence upon a French location for the JET?

P: No. The conflict around JET is rather an "accident du parcours" — an accident in the course of a political hurdle race....

S: Wouldn't the team rather settle in Ispra (Italy) anyway?

P: Ispra has very definite advantages. It is already one of the community's research centers, and also the current supply is enough for the requirements. Other centers, such as Garsching and also Culham, have the experience in the area of plasma physics. But such

differences do not justify the years-long delays we have experienced with JET.

S: In 1973, 53 top physicists were working on the project. At last count only 42 were left. Where have the others gone in the meantime?

P: To their national research centers. Some will certainly go to other countries. Last week six more left the team...

S: Are the Europeans still leaders in fusion research?

P: In an official comparison in July, 1975 between Europe, Japan, the USA and the Soviet Union, we were

one year ahead. Now on a second comparison, made a few weeks ago by Princeton University, our lead was only a few months. The possibility of keeping the lead is very slim.

S: Will the Europeans have to order their fusion reactor from the USA one day?

P: No region in the world must have as much interest in fusion as we have in Europe. Now already, the EEC countries must spend hundreds of millions of dollars for imported crude oil and uranium. Fusion is therefore not just one, but our last chance.

U.S. Labor Party Issues Energy Program; LaRouche Campaigns For Industrial Development

NEW YORK, Dec. 30 (NSIPS) — The U.S. Labor Party announced the publication of "A Program for U.S. Energy Development-1977" from its New York city headquarters today. The program emphasizes renewed development of the high technology Northeast region as a direct alternative to deindustrialization and systematic destruction of the region's scientific potentials posed by Wall Street's Carter Administration.

Lyndon H. LaRouche, Jr., U.S. Labor Party Chairman and designated presidential candidate for 1980, in his introduction of the pamphlet cites industrial policies that date from the American Revolution and outlines the basis of an alliance between present-day conservatives, pro-Constitution Democrats, and the USLP.

The program scores the Northeast-Midwest Economic Advancement Coalition (NMEAC) for its planned destruction of the region's aerospace and electronics industries. "The revitalization of the Northeast must take place from the present near threshold the U.S. industry has reached, automation of basic industrial processes and most importantly from the leap to a new energy source: controlled thermonuclear fusion."

The program defines competent educational policy exemplified by leading educational institutions from the post-revolutionary war period. "The Northeast developed West Point and the Massachusetts Institute of Technology, not just to defend the right of the new nation to exist but to provide the infrastructure for a growing industrial base."

Dr. Morris Levitt, Director of the Fusion Energy Foundation, will hold a midweek press conference next week in Washington D.C. to urge Congress to introduce legislation committed to the development of controlled thermonuclear fusion power. Simultaneously Labor Party spokesmen in 20 major cities including a dozen state capitals will also hold press conferences calling on state legislatures and local elected officials to memorialize energy development and the furthering of the U.S. infrastructure in their respective bodies. The Labor Party will campaign for the passage of the appropriate legislative measures which could mean the creation of four million new jobs within six months of the development policy's implementation.

Skilled workers, businessmen, technicians and industrial designers have indicated interest in the Labor Party pamphlet. Researchers connected to the now-stalled construction of nuclear plants in Indiana and Florida welcome the program as the basis to resume a fight they had deemed hopeless three years ago.

"A Program for U.S. Energy Development-1977" is scheduled for public distribution January 5.

The North American Labor Party (NALP) will initiate a drive to enact the "Canadian Fission-Fusion Development Project-1977" which will be released this week as a supplement to the U.S. Energy program. NALP organizers will bring this plan to the opening session of Parliament scheduled for mid-January in Ottawa.

"Tomorrow Is Knocking"

The following editorial appears in the December issue of Industrial Research magazine, whose masthead reports it is "serving the \$70 billion world-wide R and D industry." The statement reflects the widespread sentiment among industrial and technical personnel for the expansion of present energy resources, as part of a fully functional expanding industrial economy.

Mankind has responded to the symbolism of opportunity knocking at the door many times in the past, and will have cause to do so in the future, but history is not likely to record a more opportune occasion for door

opening than the one we occupy right now. History will record how well we respond to this occasion and whether we welcome opportunity in our generation.

The world was not ready for electricity when Ben Franklin worked out many of its principles in the 1750s. The world was not ready to use electricity when Edison and Tesla provided the basic applications for electricity almost 125 years after Franklin's work. Widespread use of electricity in the U.S. began some 170 years after we became acquainted with this power source. Many important technologies have taken years to reach general use, but others, such as the transistor, have proved that long gestations are not inherent in

technological advances by moving rapidly from concept into our daily lives.

Technology moves in cycles, as do most important things, and the down cycle is the proper time to prepare for the next period of discovery and development. Things have been slow in the exciting development business recently. This slack time is just what we need to give us a running start on the hectic days that we can be certain are waiting for us in the future. Let it not be said that the society which dawdled for nearly 200 years over the application of electricity was guilty of a similar lapse in the use of superconductivity; and extended space travel, colonization, and manufacture. As did electricity, these technologies hold the prospect for tremendous change in our lives and economies, now and for centuries into the future.

Tomorrow belongs to those who prepare today. And the nature of tomorrow, even its time of arrival, are entirely

in our hands. We can wait patiently for tomorrow to happen eventually and react to it when it does arrive, or we can prepare now to make it happen soon, and in our way.

Granted, we don't know all that there is to know about superconductivity or high-power lasers or extended space travel or controlled fusion or the potential impact of advanced computer capabilities, but we know enough, that plans can be made. The implications for society and technology can be surmised. The needs as well as the opportunities can be foretold. University programs can be started now to produce expertise in these critical areas of social and scientific planning. Industry will want to have the capability and experience to implement these next great strides.

The theories have been derived. Technology is advancing in all of these areas.

Opportunity approaches our door.

Will we be ready for tomorrow?

Breakthrough in Understanding Plasma Structures

Exclusive to NSIPS

In the past five years, an increasing number of scientists have come to recognize that the new, unexplored frontier of science lies in the field of plasma physics. Because of the urgency of realizing controlled nuclear fusion, a technology based on plasmas, the scientific challenge of these frontiers assumes an even greater importance. In the last nine months there have been a series of theoretical advances in forefronts of research into "non-linear phenomena" in plasmas; one of these, which was published by G. Lamb, Jr. in *Physical Review Letters* last August, may be the first step in a profoundly significant attack on the problems of understanding plasmas.

The characteristic feature of non-linearity, in whatever field it appears, is "progress." In social systems, history is made by the steady development of new technologies, new concepts, and their applications. In the geological sciences, the "evolution" of the Earth has been a change from a uniformly hot, smooth planet, to the present world of highly differentiated atmosphere, climates, and elevations. A similar development is obvious in the biological sciences in the first origins of life from inorganic matter, and the subsequent coming into being of more and more complex living things, which make up a biosphere supporting greater and greater energy flows. For the first time in the physical sciences, plasma physics now seems to have demonstrated similar phenomena occurring in a collection of non-living matter.

A plasma is a gas which is so hot that the molecules in the gas have been split into their constituent atoms, and these atoms have then stripped of their electrons. The resulting matter is ionized and interacts with itself by means of electrical and magnetic forces, which are thousands of times stronger than the molecular forces

that determine the properties of a usual gas. The key quantity in determining the astounding properties of a plasma is its "energy density," the amount of energy per unit volume that the plasma contains. The electromagnetic interactions and the high energy density of a plasma result in two quite extraordinary qualities:

1. The plasma has a tendency to evolve from states without order to states which have large-scale organized structures. An initially randomly forced plasma can, for example, spontaneously transform itself into a collection of large whirlpool motions. The spontaneous formation of vortices is a persistent feature of the natural evolution of a plasma.

2. This tendency toward the formation of large organized structures, like vortices, out of random motion in a plasma is a specific example of the striking characteristic of a plasma to concentrate its own energy. In the usual situation of a low-temperature gas, or, indeed, any low energy-density material, the energy available to it is distributed in a uniform way throughout its volume. But plasma, on the contrary, will bunch up the energy to the point that the energy density in one of the structures can be 100,000 times as great as the initial state — the ideal conditions for producing controlled thermonuclear fusion reactions.

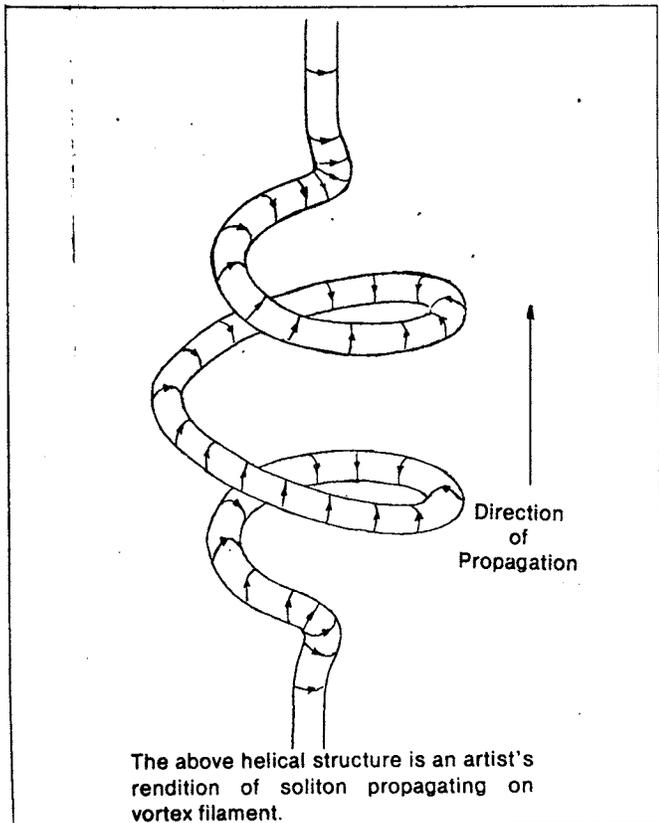
A general theoretical concept of this sort of behavior does not exist at present, but the name given to this whole class of "anomalous" behavior is "non-linearity." This concept, while clearly important, is still in a formative stage. At this point it appears that the key to understanding non-linearity lies in understanding the tendency that highly energetic plasmas have for forming self-ordered structures. What seems to be required from an experimental and theoretical research program is a kind of zoology of these structures. With this zoology, the truly

fundamental problems of mathematical physics can begin to be studied — the zoology is the first experimental step.

Solitons, Cavitons, and Other Structures

There are two types of structures that appear in plasma dynamics, and these two classes of structure have seemed up until now to be entirely different. The first of these are called hydrodynamic, or MHD (for magnetohydrodynamic), because of their similarity to structures that arise in fluids, and include vortices, filaments, rings much like smoke rings, and galaxy-like structures. The second general class arises out of plasmas created by electron beams or lasers, which produce spikes of electrical field ("solitons"), small evacuated cavities ("cavitons"), and self-accelerating bunches of particles.

The physical mechanisms between these two kinds of phenomena are entirely different. The MHD structures come out of the motion of the heavy component of the plasma, the ions, and, seem in fact to depend on electrons in an entirely unimportant way. The wave motion that is associated with these structures (ion acoustic waves and Alfvén waves) have a slow time variation, and the time scale of the phenomena tends to be relatively long. In the



case of the solutions, however, the ions can be thought of as stationary, and the important dynamics come from the much more rapid motion that the electrons, being much lighter, undergo; the waves and other collective modes of the plasma in this regime (Langmuir waves) are rapidly varying. In spite of this deep physical difference, both kinds of plasma dynamics, the MHD and electron regimes, give rise to self-organized structures in a hot plasma. This fact has been a persistent difficulty in understanding the significance of solitons, vortices, and

their relatives: what could be the fundamental connection between phenomena which are qualitatively similar (in that they are both examples of self-generated structure that a plasma creates), but which have totally dissimilar physical origins? What kind of property of the plasma are they evidence of? Or, perhaps, is it only accidental that both occur, and is it a kind of anthropomorphism that they would be thought similar at all?

Lamb's work makes an important first step in answering these questions, for he has shown that there is a systematic connection between vortices and solitons, at least in fluids, and, more importantly, has identified the underlying feature of the fluid which creates this connection between solitons and vortices — the intrinsic geometry of the fluid motions.

Solving the NLSE

In the following description of Lamb's work, I will try to make the description understandable without reference to the mathematical formalism that Lamb uses, but the equations that are central are reproduced so that those with mathematical background can duplicate Lamb's formal reasoning. The key equation in the study of solitons in a plasma (although it is not by any means the only equation which gives rise to solitons) is the non-linear particle differential equation called the non-linear Schrödinger equation (NLSE):

$$i \frac{\partial}{\partial t} \psi + \frac{\partial^2}{\partial x^2} \psi + 2|\psi|^2 \psi = 0$$

This equation describes the behavior of the amplitude, or strength, of a wave, and shows that the time variation of the wave (given by the time derivative) is dependent on a "kinetic energy," given by the spatial derivative, and a "potential energy," due to an attractive force which increases as the strength of the wave increases. This is the term in the equation which depends on the third power of the amplitude. Physically, it says that the wave is attracted to places where the wave is already strong — and hence, the wave has a tendency to bunch up and concentrate itself into sharp spikes of wave energy which are called solitons. The NLSE has another set of solitons which are called plane waves, and correspond to what we usually think of as light rays. However, in a plasma, light waves (and other waves) travel according to the NLSE, so that if they enter the plasma as a plane wave (or usual light ray), they tend to break up into small filaments of concentrated light, solitons, as the NLSE's "potential energy" forces the light to bunch up. In the laboratory this class of solitons occur persistently whenever a strong laser is used to illuminate a plasma — hot spots of self-focused laser light are created.

The NLSE is a very difficult equation to solve and its general solution continues to evade scientists and mathematicians. However, in 1972 two Soviet physicists, V. Zakharov and A. Shabat, discovered a powerful tool for dealing with the NLSE. The method, called the "inverse scattering method," allows the NLSE to be reduced to two linear partial differential equations, which are then much easier to solve. The problem with the inverse scattering method, however, is that the transformation that reduces the NLSE was found by intuition, and attempts to apply the method to other non-linear partial differential equations have depended on guessing an appropriate

transformation — there is no systematic way of connecting the transformation with the equation. Lamb's contribution is specifically to show a physical connection between the NLSE and the transformation required for the inverse scattering method — and he invokes the physics of vortices to make this connection!

Lamb's argument requires three steps:

1. Start with the physical situation of a long, thin whirlpool in a fluid, a "vortex filament."

2. Derive the equations that describe the motion of the vortex filament in the "intrinsic" geometry of the filament. This means using a measuring system for describing the filament that is defined in terms of the curvature and "twistedness" of the thread of vorticity.

3. Solve this equation. When this is done, it turns out that the motions that can occur on a vortex filament are described by the NLSE and that a plane wave corresponds to a smoke ring (where the two ends of the filament have been joined together) and a soliton corresponds to a loop of helical motion (see figure). Once the NLSE is applied to this situation, there are simple geometrical constraints that apply in an obvious way to the filament, which give rise to the inverse scattering method. Put differently, the intrinsic geometry of a vortex shows how solitons behave.

The idea of a vortex filament is due to Helmholtz, who published a paper in 1858 in which almost all that was known until recently about these filaments was derived. He showed very generally that all vortex motion in a fluid was expressible in terms of vortex filaments, and derived very general results about their motion. The central idea in Lamb's work is to imagine the vortex filament as a "space curve," that is, a line moving through space, which can turn and twist as it moves. The so-called intrinsic geometry of this space curve is then given by measuring the curvature (how sharply the filament turns at any point) and its torsion (how twisted it is at any point).

Geometries

These two quantities are expressed in terms of a coordinate system that moves with the twisting and turning filament. The effect is just the *opposite* of a gyroscope on a ship. The gyroscope gives the navigator on a ship, no matter how the ship sways, a constant bearing; the intrinsic geometry, on the other hand, defines the position of the ship in terms of all the twists and turns that it has made. All the geometric qualities that are required can be expressed in this geometry that travels with the filament, and R. Betchov, in 1965, was able to write down the set of complicated equations that express the motion of the vortex filament in this intrinsic geometry. At this point it is not clear why the intrinsic geometry would be informative. It is certainly more complicated than an absolute geometry (think of a ship trying to navigate by keeping track of all the twists and turns rather than using the North Star), but — and this is the key to Lamb's work — the simplest *physical* reasoning comes from realizing that the geometry that a physical object moves in is as much a product of the dynamics of that object as its motion; geometry is a dynamic entity. In other words, the physical laws that prescribe the behavior of an object at the same time create a space in which that motion takes place.

Betchov's equations, which combine the physics of the vortex filament in the intrinsic geometry of the filament (conceived as a space curve), are expressed in the three vectors that travel with the filament and define the height, width, and depth at that point on the filament. Once these equations are known, it is then possible to derive the equations for the curvature and torsion of the filament. Lamb's work depends on an extraordinary fact: if Betchov's equations are used to write the equations for the torsion and curvature, the result is the NLSE! Specifically, if we define:

$$\psi = \frac{\kappa}{2} e^{i\varphi}, \quad \frac{\partial}{\partial x} \varphi = \tau$$

where:

$$\begin{aligned} \kappa &= \text{curvature of the filament,} \\ \tau &= \text{torsion of the filament,} \end{aligned}$$

then:
$$i \frac{\partial}{\partial t} \psi + \frac{\partial^2}{\partial x^2} \psi + 2 |\psi|^2 \psi = 0$$

This is the NLSE written for the above combination of the torsion and curvature of the vortex filament.

This is a very powerful result, since we have a specific model of how the NLSE equation comes out of the intrinsic geometry of the vortex filament, and the geometrical information can be used to study the NLSE. Lamb did this, and noticed the very simple geometrical fact that the three vectors that define the intrinsic geometry, since they are perpendicular and have a specified length, put constraints on the possible values of the torsion and curvature. This, in turn, means that the information from these constraints puts restrictions on the NLSE. Specifically, it allows us to define a transformation that takes advantage of the restrictions to reduce the NLSE to a set of linear equations. When this is done, the resulting linear equations are those of the inverse scattering method. The result not from an inspired guess, however, but rather are a natural and, in this case, simple result of the geometric considerations. (Here is a good example of the power of intrinsic geometry. Its use laid bare the inner workings of the filament).

Where does this all lead? Lamb has shown that two things are of importance: First, the phenomena of solitons and vortices are intimately connected. In a fluid, the dynamics of vortex motion generate the same equation that describes solitons in a plasma. Second, the connection between solitons and vortices comes out of the intrinsic geometry of the vortex filament. It is a result which depends on using a geometric kind of physics. The actual whirlpool geometry of the vortex defines the mathematical geometry natural to a soliton.

How does this relate to phenomena in a plasma? This insight opens up the possibility of a systematic study of the relationships that exist among phenomena like solitons and vortices, in whatever medium they occur. But it is only a first step. The dynamical equations, and hence the geometry, of a plasma are much more complicated than that of a fluid, and so the problem of extending Lamb's result in a rigorous way to a plasma is a difficult one. Lamb has begun the kind of comparative anatomy of the organized structures generated by a plasma. Continuing this research, both experimentally and theoretically, is the key to one of the most exciting frontiers in science.

Soviets Expose Carter Trilateral Connection

The Soviet daily *Pravda*, in the article excerpted below, warns Western Europe that the Carter Administration is trying to hoodwink U.S. allies into bailing it out of a fundamentally weak position. The article documents— for the first time in the Soviet press — Jimmy Carter's ties to the Trilateral Commission, the supranational organization founded by David Rockefeller to hold the governments of Western Europe and Japan under U.S. financial circles' domination.

The barrage of war propaganda coming from the West in recent weeks, said the Soviet government daily *Izvestia* Jan. 5, reminds one of Hitler's campaign about the "threat from the East." Implicitly warning the so-called moderates in Carter's Cabinet, *Izvestia* wrote that Hitler's speeches sounded "like music" in the ears of "moderates" in London, Paris and Washington "who hoped to use the Hitler war machine for the destruction of the Soviet Union." Not everyone in the West seems to have learned the lesson from this attempt, the paper said. Instead, they are using the supposed "Soviet threat" as an excuse for a huge arms build-up and as a "justification for possible use of nuclear weapons in Europe."

More warnings come from the Czechoslovak paper *Rude Pravo*, which wrote Jan. 4 that the U.S. is even riding roughshod over its own allies in NATO, such as Portugal and Italy.

Pravda Jan. 4 — "A Triangle of Compromises and Contradictions," by Georgi Ratiani, *Pravda* political observer

The entry in two weeks' time of new people to the White House and all state institutions involved in determining U.S. foreign policy, and the reorganization of financial and geographical relationships of the "interest groups" of Washington politics, are now leading people in the capitals of the other capitalist states to wonder what this means for their relations with America.

When mention is made of the relations of the main capitalist powers, people often refer to a "triangle." This implies that the corners of that geometric figure are the U.S., Western Europe and Japan. A fierce conjunctural struggle is raging between the three centers; they are divided by profound contradictions. At the same time, especially on the part of the U.S., enormous efforts are being made to coordinate policies, especially in relation to the socialist countries, the developing states, and the democratic and revolutionary movement within the capitalist states themselves. They are also united and divided over such global economic problems as world trade, the currency system, and energy sources. All

these contradictory processes are particularly aggravated with the deepening of the general crisis of capitalism. The multinational monopolies, whose weight has grown extraordinarily over the last decade, exercise a decisive influence on the character of relationships between the main centers of capitalism...

In 1973, at the initiative and under the sponsorship of Chase Manhattan Bank Director David Rockefeller, the "Trilateral Commission" was formed, of "private persons," including the top bankers, heads of corporations and politicians of the U.S., the West European countries and Japan.

Now, during the "transition period" in the U.S., attention must be drawn to one characteristic circumstance. Then Governor of Georgia, future President of the U.S., James Carter, has played an active role in the Commission and has been involved in the study of major international problems. Other American figures who are now in the new administration have also been and still are on it, Walter Mondale, elected Vice-President of the USA, Cyrus Vance, designated to replace Kissinger as Secretary of State, Michael Blumenthal, Finance Minister, Harold Brown, Defense Minister (was on the Executive Committee of the Commission); Zbigniew Brzezinski, Carter's aide for National Security (was until recently the President of the Commission). In other words, aside from the President and Vice-President, the people who are taking the highest posts in foreign policy, military questions and finance are from this Commission.

What is more, various businessmen whom the American press calls close to the new administration are on the "Trilateral Commission": the President of the biggest private bank in the capitalist world, Alden Clausen, the second-biggest, Chase Manhattan Bank, David Rockefeller, the director of the Coca Cola Company Paul Austin; and others.

In the West European section of the Commission are Raymond Barre, who in the fall of 1976 became head of the French Government; President of FIAT Giovanni Agnelli; the banker Edmond Rothschild, president of the Board of Directors of the Thyssen concern, Hans-Guenther Sohl, and many others. The Japanese section of the Commission is just as well represented, including Tomic Doko, President of the Japanese Federation of Economic Organizations (Keidanren) and many other people from the highest circles of Japanese business.

The Commission conducts conferences and colloquia, publishes trilateral collective reports and

recommendations on such themes as: restoring the world financial system; the crisis of international cooperation; the turning point in north-south economic relations; the direction of world trade in the 70s; the energy crisis; new plans for cooperation in oil for 1976-1980, and finally, the last report, this time a political one with very pessimistic conclusions — "The Crisis of Democracy" — on the crisis in the state system of the capitalist countries.

The ideas of the Trilateral Commission frequently figured in Carter's speeches throughout the election campaign. "Trilaterality in this form was used as a weapon by the Democratic Party Presidential candidate, as a central theme of his foreign policy," writes the journal *Foreign Affairs*. Carter criticized the Nixon and Ford administrations in his electoral speeches for having inadequately coordinated U.S. foreign policy with Western Europe and Japan...

Washington's turn towards the Peoples Republic of China was carried out without Japan's knowledge, which created, in addition to the commercial crisis, a severe political one. Kissingerian "shuttle diplomacy" in the Middle East was conducted without the European allies of the U.S., although it involved their vital interests too. Stories about the American "lone horseman" approach began to appear in the western literature and the press.

The inglorious end of the Indochina war laid the basis for the stage of "reappraisal of values." It was then that the Trilateral Commission was born. Kissinger proclaimed 1973 the "Year of Europe" — that is, the year of establishing the American position in Western Europe. In summer of 1973 a declaration was passed on relations between the U.S. and its NATO partners, or, as they began to call it, the Second Atlantic Charter (after the first Charter signed by Roosevelt and Churchill in August 1941 on war aims), which in Washington's view was to supplement the North Atlantic Pact's provisions on cooperation in economic and currency spheres, on special privileges for the multinational monopolies, etc.

At Washington's initiative the main capitalist powers attended conferences of heads of state and governments, in which the main "Trilateral" countries participated. At these meetings they discussed ways out of the economic crisis of capitalism, problems of controlling inflationary processes, unemployment and currency chaos. Such conferences were held in Rambouillet, near Paris, at the end of 1975, and in Dorado Beach on the Caribbean island of Puerto Rico in summer 1976. These strictly secret gatherings show the new level of capitalist coordination

in preparing recommendations, in the context of the deepening general crisis of capitalism. The new American administration will evidently, from the very start, look to "trilateral" policies for a way out of the crisis at the expense of its partners, deepening even further the disagreements in the corners of the triangle.

The other characteristic of the summit — and not only summit — conferences under the auspices of the "triangle" is that they are more frequently sanctifying the gendarme functions of the "partnership" of the three centers, like the Holy Alliance of monarchists at the beginning of the last century. After the Puerto Rico conference, Chancellor Schmidt told journalists that the convened heads of capitalist states had passed a secret resolution: to apply economic and political sanctions to Italy in case of Communists entering the government after the parliamentary elections.

According to the press, a new meeting of the heads of the main capitalist states should take place in the near future. "The leaders of the major western European countries are openly calling for the earliest possible summit meetings with future President Carter," writes the *New York Times*.

In all of these steps to coordinate the actions of the imperialist centers, however, the U.S. is not taking the leading role to the same extent that it did in the first post-war decades. American hegemony in the capitalist world is being more noticeable undermined in the economic sphere than in the military-political...

Sharpening contradictions and unstable compromises — that is how relations between the three main centers of capitalism can be characterized. The *Paris Le Monde Diplomatique* writes of the American conception of the triangle: "trilaterality can be viewed as a reworked, more carefully formulated, more diplomatic variant of U.S. leadership in the 'free world.' ... It is also a kind of 'new course' on a world scale for saving capitalism from the crisis through reforms... within the bounds of existing structures."

The concept of trilaterality, developed in the USA, and especially graphically embodied in the idea of the Trilateral Commission — a "club" of the strongmen of the world — shows the significant weakening of the capitalist system as a whole, and one of the new aspects of the aggravation of the general crisis of capitalism and the attempts of the USA under these circumstances to preserve its influence over the course of international affairs.

Behind Conflicting Strategic Assessments: War Buildup and Intelligence Reorganization

The current avalanche of conflicting leaks, news, and editorial opinion respecting the annual U.S. National Intelligence Estimate of the USSR's warfighting capability and intentions — the so-called Team A-Team B flap — is itself an attempt to mobilize the United States behind a commitment to a thermonuclear "show of force" against the Soviet Union. Although this past week has seen public opposition to the Rockefeller-Trilateral "show of force" policy within traditionalist layers in the CIA, and even within the utopian monetarist circles which dominate the Carter Administration, if the "debate" over U.S. military strategic policy is allowed to continue on its present terms the United States will remain on course toward national suicide in a thermonuclear holocaust sometime in the first six to nine months of the Carter Administration.

The "facts" of the matter ostensibly in dispute — whether the USSR has achieved a decisive military-strategic superiority over the USA and is prepared to use it — have been known in informed U.S. military, intelligence, and policy-making circles for months, perhaps even years. As this news service and its affiliates have repeatedly pointed out since the MC 14-4 controversy in the spring of 1975, the Soviet Union would respond to any U.S.-provoked conflict premised (from the U.S. side) on the Schlesinger "calculated bluffing" strategy of step-by-step escalation to "limited nuclear war" by launching a full-scale thermonuclear attack on the United States at the first point its strategic interest was directly threatened. Since at least the summer of 1976 (Cf., Lyndon LaRouche, *The Danger of General War*), it has been clear that the USSR would probably win a thermonuclear war, obliterating 160 million U.S. citizens within hours and leaving the Warsaw Pact nations damaged, but with 80 per cent of the USSR's population alive and its economic and political institutions substantially intact.

The decision to make such information on the Soviet warfighting capability public — by the very circles associated with Schlesinger and his co-thinkers on the Committee on the Present Danger and Team B — has two interrelated purposes: First, to create a war psychosis in the U.S. population by replaying the "missile gap" scenario of the Kennedy years to justify a U.S. war buildup; second, to facilitate the "reorganization" of the CIA, the U.S. intelligence community, and more broadly, the federal bureaucracy and U.S. institutions generally, to put those forces committed to a showdown with the USSR in total control.

Their factional opponents on this issue within the monetarist camp, represented by intelligence community insiders like Victor Zorza, and by the Wall Street firm Lazard Frères and their spokesmen at the Washington Post, argue correctly that the USSR will not be "bluffed out" if confronted with a U.S. war buildup. Moreover, they point out, the Committee on the Present Danger crowd is guilty of a galloping lunacy in misrepresenting Soviet military capability as *prima facie* evidence of "Soviet imperialist intentions." As the Post editorial below put it, "Menace is in the eye of the beholder."

Nevertheless the monetarist opposition to Rockefeller is foredoomed to defeat because of its continued commitment to the Carter program of global deindustrialization, debt collection, and "little wars" of destabilization to enforce continued looting of the developing sector nations. Without a new world monetary system based on dollar debt moratoria and treaty commitments to creating expanding production and trade, there is no path to "national security" for the United States, as the USSR will not permit the U.S. to gain a military strategic stranglehold by militarizing the Third World. A third, far less public factional grouping exists in U.S. ruling circles opposed to war and implicitly favorable to the necessary economic policy. It is not represented in the Carter Administration, which is actively trying to clear such people out of the federal government, and particularly the intelligence and defense establishments, through such devices as the Team B report.

The problem faced by those who seek to avert war, but remain committed to the Carter economic program or parallel versions of global Schachtian austerity, is that such policies must now rapidly lead to war. The Hitler-Schacht debate of 1936-38 over whether Nazi Germany should go to war is being replicated in the present situation. Hitler's Finance Minister Schacht perceived, just as opponents of a U.S. bluff and "blitzkrieg" buildup today, that his country did not have military-economic capacity to wage an offensive war. Hitler — or more accurately, the Krupps, I.G. Farben, and German industrialists for whom Hitler and Goering were the factional spokesmen on this issue — realize that Schacht's "successful" looting policies against the German population were reaching a point of no return, and that only a policy of military conquest could avert a German economic collapse. Hitler launched his massive military buildup in preparation for war, remilitarized the Rhineland, seized

Austria, and invaded Czechoslovakia, seeking new areas for looting and slave labor. Once those looting policies became insufficient, Hitler moved further east against the Soviet Union. Without the war policy, Schacht's policies would have lawfully failed.

Like Carter's team, Hitler, in order to prepare the way for his war effort, had to remove any vestige of opposition within the German General Staff. The generals opposing Hitler were treated to a series of "watergating" operations involving scandals remarkably similar to the Wayne Hays affair. Even Schacht fell out of favor with Hitler and was relegated to the background, his reputation as an "economic genius" saved by his Anglo-American masters. It is the same monetarist financial and intelligence networks who brought Hitler to power who have made Jimmy Carter President-elect.

There are essentially two levels to the attempts at military and intelligence reorganization now going on in the U.S. On the first level is the entire intelligence evaluation system of the CIA and the Pentagon. Presently, a majority of the individuals located within these specific operations are basically opposed to any reorganization scheme which leads to the war buildup. Thus the Washington Post has attacked any scheme which leads to this end. In the Defense Department, Secretary of Defense Donald Rumsfeld, who reflects traditionalist layers, has created a somewhat independent military intelligence apparatus which is a bastion of anti-Rockefeller sentiment. The Defense Intelligence Agency and the National Security Agency, along with the Chairman of the Joint Chiefs of Staff, Gen. George Brown, has resisted efforts to replace key people and has kept intact the traditional strategic evaluation system.

In terms of the CIA, the recent battleground between Teams A and B, Rockefeller has openly moved to take over. To directly oversee the surgical removal of the opposition forces, Carter has appointed Ted Sorensen as the next director of the CIA. The Sorensen appointment was engineered by the architects of the Bay of Pigs, the Cuban Missile Crisis, and Vietnam — William and McGeorge Bundy. William, a former deputy director of the CIA, has been operating behind the scenes handpicking a whole new round of intelligence operatives. McGeorge Bundy, president of the Ford Foundation and the key policymaker behind the Operation Phoenix program in Vietnam, has also been instrumental in preparing various of Rockefeller's private networks to be reintegrated into the various government and intelligence sections. Sorensen himself was Kennedy's chief confidant and speechwriter, who participated in the Bay of Pigs operations. Both the Post and traditional intelligence layers have attacked the Sorensen appointment!

As for covert and clandestine operations, the Carter Administration and its press organs have consistently watergated such CIA personnel, and are now trying to

buy them out off by calling for maintenance of covert operations under a whole series of new covers. (See National Report.) This operation is strategically important from the Rockefellers' standpoint because it will maintain their control over terrorism and sabotage against all opposition.

The reorganization of the intelligence community is already underway. However, the six-month plan proposed by Ray Cline, former CIA deputy director of intelligence and director of the Center for Strategic and International Studies, is currently awaiting implementation. Cline's plan calls for the elimination of the CIA as it is presently constituted. In its place, a Central Institute for Foreign Affairs Research would subsume the entire function of the CIA and undertake the creation of new functions within the various spheres of intelligence analysis. The purpose of the reorganization is to eliminate any entrenched opposition to this new super-agency, and to give the appearance of "objective analysis" for running Rockefeller policy. Cline, a member of the Committee on the Present Danger, has been organizing the various factions into accepting this reorganization. To facilitate his role in this factional warfare, Cline has come out against the Team B report, stating that "it would ruin the integrity of the intelligence analysis system."

Nonetheless, his actual role is to try to create a consensus of opinion for restructuring the agency. Within that process Cline also proposes the incorporation of the academic community into the process of intelligence analysis on an open and expanded scale.

While proposing no changes in the role of intelligence analysis and recruiting operations, Cline stresses the need to place clandestine and covert operations outside the analytical section. The *raison d'être*, according to Cline, is to permit greater covert activity; covert actions will be less vulnerable to exposure if their cover is not tied to the central agency. In effect, Cline proposes the dispersion of covert operations throughout the entire government bureaucracy, a process that Rockefeller and the Trilateral Commission set into motion a few years ago under Schlesinger's tenure at the CIA. Under the reconsolidation, Rockefeller and his Trilateral Commission would be able to combine the resources and effectiveness of the private and official intelligence operations.

Domestically, this will mean the top-down control of each facet of intelligence gathering and enforcement, thereby creating a total Gestapo and criminal justice system. With the FBI thoroughly watergated into running its formerly semi-independent operations under the control of the Attorney General, and the rest of domestic enforcement — the Law Enforcement Assistance Administration, Drug Enforcement Administration, U.S. Attorneys, etc. — controlled through an expanded functioning of the Deputy Attorney General, Carter and the Trilateral cabinet will be able to destroy any political opposition.

The Press Reports the 'Team B' Flap

Washington Post, Jan. 2 "Carter to Inherit Intense Dispute on Soviet Intentions" by Murray Marder: President-elect Jimmy Carter will inherit an intense dispute over U.S. intelligence estimates of the Soviet Union's global strategy....

For the first time in 26 years, a special panel was commissioned to challenge the judgment of the official government analysts. The special group argued that the traditional estimators for years have been seriously miscalculating the basic intentions of the Kremlin, and understating the threat to the United States.

The result is a new, sterner National Intelligence Estimate on the Soviet Union....

The validity of the new estimate is defended by George Bush, director of the Central Intelligence Agency and also government-wide director of central intelligence. In the latter role, Bush and Richard Pipes, professor of Russian history at Harvard University, jointly agreed on 10 specialists, including Pipes, who could add a new dimension to the annual, most critical National Intelligence Estimate by joining in sifting through the secret data.

Team A, which produced the official report, was headed by Howard Stoertz, CIA national intelligence officer on the U.S.-Soviet strategic balance. The CIA declined to list the members of the team. The official intelligence estimates are negotiated inside the intelligence community, which is comprised of the CIA, the Defense Intelligence Agency, National Security Agency, Army, Navy, Air Force, the State Department's Bureau of Intelligence and Research, Treasury, Energy Research and Development Administration, and the FBI.

Team B, led by Pipes, former director of Harvard's Russian Research Center, worked on the intelligence estimates for about three months, starting in August. It included the following:

Daniel O. Graham, retired Army lieutenant general, who directed the Pentagon's Defense Intelligence Agency until last January; Tomas Wolfe, Rand Corp. expert on Soviet military affairs, and retired Air Force colonel; John W. Vogt, Jr., retired Air Force general who commanded the Seventh Air Force in Vietnam and U.S. air forces in Europe; Paul H. Nitze, former deputy secretary of defense, a specialist on the U.S.-Soviet nuclear strategic arms limitation talks who helped form the new Committee on the Present Danger.

Also, William R. Van Cleave, professor of international relations, University of Southern California, who has served on the U.S. SALT delegation, and Foy D. Kohler, former U.S. ambassador to Moscow, 1962-66, and now a professor at the University of Miami's Center for Advanced International Studies, with which Graham is

also associated.

Team B also included the following officials still on active government duty:

Air Force Brig. Gen. Jasper A. Welch, Jr., assistant chief of staff, studies and analysis, who has helped develop U.S. positions in the SALT talks; Seymour Weiss, who served as director of the State Department's Bureau of Politico-Military Affairs and was recently ambassador to the Bahamas and Paul D. Wolfowitz, deputy assistant director for planning in the verification and analysis bureau of the Arms Control and Disarmament Agency.

Among those who are pleased with the outcome of the Team A-Team B competition, the debate is variously described as "bloody, but healthy," or "constructive" and "long overdue." Critics call it a "bludgeoning" exercise, which further demoralized analysts in the battered CIA.

There is speculation that Bush's successor in the Carter administration, Theodore C. Sorensen, will now see the dispute as added reason for overhauling the intelligence evaluation structure....

The idea for an adversary team on intelligence originated with the President's Foreign Intelligence Advisory Board, headed by Leo Cherne, New York economist and research specialist.

Pipes, when asked last week why his team was so "one-sided", said:

"There is no point in another, what you might call, optimistic view. In general there has been a disposition in Washington to underestimate the Soviet drive. The moderately optimistic line has prevailed... We have imposed very severe limitations on ourselves. The hope had been that all those steps would lead the Russians to slow down. They haven't."

Numerous sources on all sides agree that the "peer pressures" on the insiders, confronted by the prestigious names and reputations of the outside challengers, were great.

Graham was reported to have said to the CIA analysts at one stage that "I don't want to tell you guys you're going to lose your jobs, if you don't get on board, but that's the way it is."

Graham said last week, "Oh my God, I never said anything like that in my life; that's absolutely shabby; that's absurd."...

New York Times, "Jan. 3 "Air Force's Ex-Intelligence Chief Fears Soviet Has Military Edge," by David Binder: The man who has played a central role in swinging the United States intelligence community

toward a more grim estimate of Soviet strategic objectives says he believes that the Soviet Union has already achieved military superiority over this country.

Major Gen. George J. Keegan Jr., who retired yesterday as the Air Force's chief of intelligence, said in an interview that he had reached this conclusion primarily as a result of recently acquired information. It involves, he said, a vast Soviet military and civil defense shelter program, stockpiling of foods and grains for war emergency and development of some 10 to 15 new ballistic missile systems the Russians will test in the next few years.

"Today, because of the civil defense measures in the U.S.S.R., I believe the United States is incapable of carrying out its assigned wartime retaliatory tasks of crippling the Soviet industrial economy, the essential civilian-military leadership, nuclear stockpiles and the basic fighting capacity of the U.S.S.R.," he said.

"By every criterion used to measure strategic balance — that is, damage expectancy, throw-weight, equivalent megatonnage or technology — I am unaware of a single important category in which the Soviets have not established a significant lead over the United States..."

"What it all means is that the Soviets believe they can survive a nuclear war, not without of course suffering a great deal of damage in the process."

This conclusion together with his assessment of newly developed Soviet offensive war capabilities, has led General Keegan to the estimate "that the greatest global conflict in history is likely to occur within the next decade or two unless there is a radical change in United States intelligence perceptions..."

Similarly, he said, past American intelligence estimates that in a superpower nuclear war, 10 Americans would die for every Russian, were also suppressed. General Keegan now believes the gap is even greater — that perhaps 35 to 40 Americans would be killed for every Russian.

He said the mistaken intelligence estimates of the past "raise serious questions about the character of arms control accords" with the Soviet Union, including the five-year treaty to limit strategic weapons which expires this year. To continue the present course of United States defense policy and strategic diplomacy, the general said, would be "inviting the very thing, the very condition which it is aimed at preventing — the gestation of global conflict."

Washington Post, Jan. 3 "Study Says U.S. Showed Force 215 Times Since '45," by Don Oberdorfer: The United States deployed its military forces for political impact abroad at least 215 times in the three decades since the end of World War II, an extensive study by the Brookings Institution reported yesterday.

During the same period, the Soviet Union deployed its military units on at least 115 occasions, based on less

complete reporting, the study said.

"The United States "show of force" by ships, aircraft or troops was successful in most cases from the viewpoint of the policymakers who ordered it — but this usually "bought time" for further decisions, or actions without changing the situation in fundamental ways, according to the study by Brookings' Barry M. Blechman and Steven S. Kaplan. Their report was the product of two years research on a \$180,000 contract of the Pentagon's Advanced Research Projects Agency.

The Korean and Vietnam wars as well as routine military operations were excluded from the study, which focused on the use of military force to influence the behavior of another nation without engaging in a continuing contest of violence. In most cases, the action was limited to the threat of force, with no shots having been fired.

Blechman, who is serving as transition aide for the Carter Administration with the Office of Management and Budget, said in an interview that he was surprised at the large number of incidents in which U.S. "show of force" was employed....

U.S. strategic nuclear forces were deployed for political effect in 33 instances, mostly in the 1940s and 1950s, according to the report. The last instance of a nuclear threat listed in the study was the worldwide U.S. alert ordered during the October 1973 Middle East war in an effort to deter Soviet participation. This and the 1962 Cuban missile crisis were the only two "overt and explicit threats" of nuclear force directed at the Soviet Union, according to the report....

From the mid-1950s to the mid-1960s was the most active period for U.S. political use of military forces abroad, according to the report. An average of 13.4 incidents per year took place during the presidency of John F. Kennedy, an average of 9.7 incidents yearly during the Lyndon B. Johnson administration, 7.3 incidents yearly during Dwight D. Eisenhower's presidency but 5 or fewer incidents yearly under Harry S. Truman, Richard M. Nixon, and Gerald R. Ford....

An examination of Soviet use of armed forces for political impact abroad suggested that the Russians have been more active far from home after the achievement of rough strategic parity with the United States around 1969. The report said Soviet military personnel have participated in three conflicts since the late 1960s — the Egyptian "war of attrition" against Israel, the civil war in Sudan, and Iraq's war against the Kurds.

On the other hand, the Russians have almost never instigated crises in which they have intervened since 1968, the report said.

Even in the Middle East, where the Soviets have encouraged Arab hostility to Israel, tensions have grown more fundamentally out of local issues, according to the study. In general, Soviet use of military forces for political effect has been less provocative under party leader Leonid I. Brezhnev than in the Nikita Krushchev era, according to the study.

Terror Scandals Endanger Mideast

Peace Chances

Tensions in the Middle East are heating up despite efforts to immediately reconvene the Geneva Peace conference which are being vigorously pursued by Egyptian President Anwar Sadat. The suspicious suicide of Israeli Housing Minister Ephraim Ofer, a leading dove, coupled with an increase in terrorism and assassinations and heightened instability in Lebanon, have created immediate obstacles to the Arab call for peaceful negotiations.

In each case, the responsibility for the new turn of events in the region can be traced to the Carter-allied Institute for Policy Studies (IPS), an internationally connected pseudo-left think tank.

The Israeli Committee for Israel-Palestine Peace, which has personnel connections with IPS, played a critical role both in provoking the Ofer death and in attempts to infiltrate and subvert the leadership of the Palestine Liberation Organization, both operations designed to sabotage a comprehensive Arab-Israel settlement which would include the establishment of an independent Palestinian state.

It was the Israeli newspaper *Ha'olam Hazeh*, edited by Committee executive Uri Avineri, which recently initiated a press campaign of scandal-mongering against Ofer, according to the Dec. 4 *Baltimore Sun*. The campaign was escalated only days before Ofer's death. Housing Minister Ofer was a close ally of Prime Minister Rabin who favored Rabin's position in support of a negotiated settlement with the Arabs, which Rabin seeks to make the election issue in his bid for a new term in the upcoming Israeli balloting. The Ofer death has already served as an excuse to trigger a wave of criticism against Rabin and the ruling Labor Party by the right-wing opposition in Israel.

Simultaneously, efforts on the part of IPS and the Committee to undercut the existing leadership of the PLO surfaced last week when two IPS agents in the Palestinian movement, in unauthorized meetings in Paris with Committee representative General Mattei Peled, signed documents effectively recognizing the existence of Israel. The move, which was calculated to send shock waves through the numerous factions of the PLO on the eve of the Palestine National Council meeting to decide on the crucial issue of whether or not to attend the Geneva Conference, was immediately denounced by

PLO acting Foreign Minister Farouk Kaddoumi in a message from Beirut.

The same Palestinians were denounced weeks before by Kaddoumi following their efforts to open a Washington, D.C. office where contacts were made with IPS official Arthur Waskow. At the same time, Al Fatah leader Abu Hassan recently denounced the IPS maneuvers around the Geneva Conference issue as "only an attempt to divide the ranks of the Palestinians."

Within days after the Paris meeting, a former high-ranking official in the PLO, who was currently a supporter of the Iraqi-backed Popular Front for the Liberation of Palestine, was assassinated in Paris. The PFLP has been targeted by IPS "moderates" in the Palestinian movement as their most formidable adversary in taking over the movement.

The Soviet Union is strongly supporting the current leadership of the PLO. *Pravda* again this week affirmed the PLO as the only representative of the Palestinian people, and Soviet leader Leonid Brezhnev sent a message of support to PLO leader Yassir Arafat.

Lebanon Heating Up

In line with predictions made by the *Washington Post* last month that Lebanon would soon see a wave of terror, the worst bombing since the ceasefire was instituted ripped through a section of East Beirut last week, destroying a Falange headquarters and killing 25. Right-wing Falangist ally Camille Chamoun immediately pinned the blame for the incident on the Lebanese Communist Party, and warned that the incident will add to an inevitable rekindling of the Lebanese civil war. In the same vein, the speaker of the Lebanese Parliament, Kamal Assad, predicted in an interview with a Jordanian newspaper that with the continued tension between the PLO and the Falange in southern Lebanon and the presence of Israeli troops along the border, the situation may well get out of hand.

A prominent left-leaning British Labour Party member, Lord Caradon, this week issued a strongly worded statement to the incoming Carter administration to heed the repeated attempts on the part of the Arabs to move the U.S. to support their call for the immediate reconvening of the Geneva conference. In a letter reprinted in the *London Observer*, Caradon stressed the

urgency of peace in the Mideast and warned that renewed fighting in Lebanon posed a serious danger for the entire region.

Bell:
'The Closer a Mideast Settlement,
the More Terrorist Spectaculars'

The following is an interview with J. Bowyer Bell, Columbia University terrorism expert, recent author of a book favorably portraying the Jewish Irgun terrorist movement. Mr. Bell had just affirmed in the interview that right-wing extremism of a violent variety is a thing of the past in Israel.

Q: If "Jewish terrorism" is unlikely at this point, what about the other side of the picture, the Palestinians, is this a thing of the past too?

A: Not by any means! Generally speaking, terrorism is a growth industry, it is labor-intensive and has rewarding capital benefits. The closer we get to a Mideast settlement, the more we will see terrorist spectaculars. Five-six people gathered together can take over television networks.

Q: When you say terrorism is a growth industry, are you talking only of the Palestinians?

A: No, not simply the Palestinians, not at all. Why, if I were a Puerto Rican independentist, I'd set off bombs on Wall Street after what happened this weekend. We'll see terrorism from the IRA, in Scotland, in Wales, Catalonia, the right and left in Italy, also in Germany, from the Croats. In the U.S. the danger will come from Cuban exiles, from Puerto Ricans, maybe even from Chicanos, with the Spanish-speaking in this country you have an awful lot of them and there's a big nationality issue. How would you like a Southern California Liberation Front? It's possible, you know. Countries that have not been known for indigenous terrorism, like Sweden, Iceland, and the U.S., will be more vulnerable.

Q: What exactly do you expect from the Palestinians? Terrorism in the U.S.?

A: Sure. It's a lot better to go after a World Trade tower than some dinky hotel in Amman. This is very likely, hard to prevent, you can buy an M-16 anywhere. The terrorism will come from the Palestinian "rejectionists," the Habash PFLP people, the so-called General Command, ad nauseum.

Q: Will it be aimed at the Israelis?

A: The Israelis have hit teams everywhere, they sit around at airports looking for trouble. In the Mideast, as peace comes, there will be terrorist rockets all over. It will cause us, and the English, big trouble, they'll say. Why not pick on the Americans, after all, they're the ones who arm the Israelis? But as for Israel itself, there's no chance of terrorism against Israel, there's too much security. The safest airline to fly will be El Al. The whole thing is, indeed, unfolding as if by choreographed drama. But the Palestinian "fedayeen" are disastrous terrorists. The only efficient revolutionary terrorist organization ever was the Irgun. I liked them.

Factionalism Within The Palestinian Movement

The following is a paraphrase from the Milan Corriere della Sera, Jan. 3 reporting on factionalization within the Palestinian movement.

A few hours after General Mattei Peled revealed documents signed by reported representatives of the Palestinian movement and the Israeli Committee for Israeli-Palestinian Peace in the Mideast, effectively recognizing each other's existence, acting Foreign Minister for the Palestine Liberation Organization Farouk Kaddoumi sent a message from Beirut to Paris "categorically denying" the documents.... "In the name of the PLO Farouk Kaddoumi denies everything from A to Z."

Asks *Corriere*: "Is it that Peled invented out of the blue sky that Palestinians had agreed to the text out of which emerges the PLO's acceptance of the creation of a Palestinian state on the West Bank and Gaza and peace with Israel?"

"Most of the Israeli political observers, among them the editors of Ha'aretz, do not doubt the authenticity of this text." Journalists who received reports of the documents note that it "highlights the aggravation of the struggle between factions within the PLO. The journalists quote an interview with a Palestinian in a Kuwaiti newspaper in which he demands the liquidation of the faction beginning with the rejectionists."

"It is not a secret that the two PLO delegates (who attended the Paris meeting — ed.) Sartawi and Jirius, belong to the moderate wing of the PLO and are pro-American. On the other hand, Kaddoumi, although not a member of the rejection front, does not intend to accept an American peace to the Mideast conflict."

Says Arie Eliav, an executive member of the Peace Committee: "...the Palestine committee, its activity, the meetings at Paris represent a catalyst in the factional struggle within the PLO...Kadoumi's statements however do not facilitate our work but we will not stop fighting to convince Israeli public opinion and the Israeli government that today we think that within the PLO there are sound people that we can talk to and that they represent the most important and influential faction. We will not stop repeating that there are such people in the Palestinian movement and that there are issues that we can jointly treat."

Arafat and Hassan on PLO Solidarity

The following are excerpts from statements on solidarity within the PLO by PLO leader Yassir Arafat and Al Fatah official Abu Hassan.

Arafat's message on the 12th anniversary of the Palestinian Revolution, Dec. 31, 1976:

Kissinger has stated that what took place at the Rabat Summit in 1974 had disrupted all his plans and calculations. He thereafter had to begin striking at the essence of Arab steadfastness, and particularly, at the allies of the October War: Egypt, Syria, and the Palestinian

Revolution, and then to disarm the Arabs of the oil weapon.

We must admit that Kissinger has realized remarkable success in his counterattack.

The American imperialist Zionist conspiracy has not ended. On the contrary, it will become fiercer in the next phase. For imperialist-Zionist forces have concentrated their efforts on liquidating the Palestinian Revolution in its capacity as the factor which complicates their plan for the future of the region. And if they are unable to liquidate the Revolution, they are not adverse to taming it or trimming its wings, thereby turning it into a disarmed helpless force....

Abu Hassan in an interview with the Algerian daily El Moudjahid:

People are now acting to force a split inside the PLO...all that is said right now around the Geneva conference is only an attempt to divide the ranks of the Palestinians....We must first be officially invited and study this invitation and can have the opportunity to expose and examine the points of view of the Palestinian people...We will not accept the UN resolution 242 where the Palestinian question is only expressed as a "refugee question."

Caradon Urges Swift Agreement On Overall Mideast Settlement

Britain's Lord Caradon delivered a direct message to the Carter Administration in a letter to the London Observer, Jan. 2, on the need for an immediate peace in the Mideast:

I do not doubt that there are those in Washington who would wish to continue the policy of divide and delay in the Middle East. Kissinger's Sinai agreement had three evils; first, it divided the Arabs, secondly, it alienated the Soviet Union, thirdly, it neglected the main issue of the Middle East — the problem of the future of the Palestinians. The horrors of the Lebanon war were one of the by-products of the policy of delay.

If such a policy is continued by the new American Administration the present favorable opportunity to work for a full and peaceful settlement by early return to the Geneva conference will be lost, maybe forever, and the Middle East may be condemned to a long, bitter, bloody conflict in which all, including Israel most of all;

will dreadfully suffer.

We must hope that President Carter and his new Secretary of State will realize the dangers in time and be eager to participate in an urgent international endeavor — certainly including the Soviet Union — to secure a comprehensive and lasting peace on principles long ago unanimously approved.

Waskow Links IPS Intervention In Geneva Preparations To Brzezinski Strategy

The following is an interview with top Institute for Policy Studies coordinator Arthur Waskow. Waskow is IPS' Mideast expert and is the top IPS operative in the Jewish liberal Breira group, which is part of attempts to open a split in the Palestinian movement.

Q: Do you really believe that the Carter administration will be more pro-Palestinian in view of Mr. Carter's extreme pro-Israel statements during the election campaign?

A: Sure, Carter said what he said by Brzezinski is part of the Middle East study by Brookings Institute (sic!), and that is the key policy thing right now. Anyway, the Saudis have given out the carrot and the stick, and now the Arabs are united behind a clear policy. The U.S. can't reject it, it's that simple. What will happen now is that the Palestinian National Council will meet in Cairo in February, they will issue a statement in support of two states, Arab Palestinian and Israeli, the U.S. will support Geneva, will push the idea of one Arab delegation going to Geneva including the PLO, the Israelis will scream, then they'll accept a second U.S. offer.

There are lots of churning around the Labor Party in Israel, even before this meeting in Paris where the PLO not only came out in favor of a state of Israel, but a Zionist state, it's overwhelming! Almost incredible! The changes in Israel won't all come at once. Rabin is not De Gaulle, if he were, everything would be wrapped up in three weeks. And Eban is not in position to pull anything off. But things are moving in the right direction.

As for the PLO — it's gotten the bottom and top line from all the Arab governments and both lines are the same: a West Bank state. The Palestinians have gotten the message from the united Arab governments, that you better buy it, or you're fucked. It's that simple!

Tensions Rise in Aegean; Vance Implicated

Exclusive to NSIPS

A series of "isolated terrorist incidents" perpetrated by extremist EOKA-B hit squads will soon occur in Cyprus, according to a former high-level U.S. State Department official who is now an advisor to Secretary of State-designate Cyrus Vance (see interview below). The incidents will trigger a "brutal response" from Turkey, he predicted, and possibly a Greek-Turkish

confrontation. "There's an awful lot of hot-headed Greeks on the island," the former official commented; "I have a feeling that they're not going to sit tight. They've been too quiet for too long."

The impending revival of terrorism on Cyprus comes amid rising tensions on the island which threaten to spread throughout the Aegean.

Turkish occupation forces in Cyprus are continuing

their daily expulsions of Greek Cypriots from the occupied territories, in what the French daily *Le Figaro* describes as a possible prelude to the proclamation of an independent Turkish Cypriot state. The Greek Cypriot government has warned the Turks that it would react "firmly and in numerous ways" if a separate state is declared.

Such a renewed Cyprus crisis could be just what the Carter forces need to revive flagging Wall Street policy in the region. A Cyprus crisis now would badly destabilize both the Greek and Turkish governments when each has been making significant moves over the past several weeks to distance themselves from NATO and develop increased cooperation with the socialist nations, Italy, and the Arabs. A Cyprus crisis would also undermine peace and trade initiatives by neighboring Italy, as well as sabotage the reconvening of the Balkan Cooperation Conference. Most importantly, it would provide Carter the pretext for intervening directly into the affairs of the region.

Carter's Secretary of State-designate, Cyrus Vance, who personally engineered "Operation Prometheus," the April 1967 coup in Greece, and mediated the December 1967 Cyprus crisis, is already in the process of forming a "study group of Mediterranean specialists" to plot U.S. intervention into the Cyprus situation, the former State Dept. official indicated.

IPS Plans Coup for Greece

The moves to revive EOKA-B terrorist operations in Cyprus are linked directly to IPS-backed efforts to pull off a coup d'etat in Greece. Key in this operation is the intricate web of Greek fascists, including royalists, junta elements, and pseudo-leftists, who are currently being mobilized to spread chaos throughout the country. On Dec. 14, Eugene Mallios, former Athens Security Police Chief during the 1967-74 junta period, was shot dead by an Institute for Policy Studies agent attached to the U.S. Embassy in Athens, Phil Scott. The phantom "Revolutionary Organization of 17 November," an IPS creation, took responsibility for the assassination, which sparked off mass riots.

Pro-junta forces surfaced blaming the Greek left for the murder and circulating anti-communist propaganda. The Greek paper *Estia*, a junta mouthpiece, charged that Mallios was "assassinated by communist rebels who support the communists' plans for chaos," while the right-wing *Akropolis* newspaper called for measures against "the reds who have infiltrated the universities and organize openly." At the same time, IPS-controlled "socialist" grouplets attacked Prime Minister Constantine Karamanlis for not clamping down on the right-wing.

Both the Greek Communist Party (KKE) and the Panhellenic Socialist Party of Andreas Papandreu have exposed the affair as an attempt to destabilize and bring down the Greek government, with the KKE calling for an urgent investigation into "the secret mechanisms that were put into effect with premeditation toward pushing political life into disorder."

This week, *Pravda* issued a warning that the U.S. Sixth Fleet is carrying out "alarming activities" in Greek

ports which are similar to those carried out during the junta days. The Jan. 4 issue of *L'Humanite*, the newspaper of the French Communist Party, warns of the possibility of another Greek coup in an article entitled, "Will Prometheus Again Be Chained?" And the *Baghdad Observer* has revealed that the Greek rightists are being assisted by Israeli intelligence.

Turks Look for Alternatives to NATO

Spurring Carter on in his search for a combination of events that will lead to a reassertion of U.S. dominance over the eastern Mediterranean is Turkey's growing cooperation with the Soviet Union, Iraq, and Italy. Following meetings in Washington last week with the Carter team, the former State Dept. staffer asserted, in reference to Turkey's shifting international orientation, "We are not about to let Turkey fall into the arms of the Soviets. We are watching the situation closely."

Next month Turkey will sign a "Friendship and Cooperation Pact" with the Soviet Union. The pact amounts to a virtual nonaggression treaty with the Soviets, according to several Turkish sources. Turkish Prime Minister Demirel has praised the document as "strengthening the relations between Turkey and the Soviet Union."

The pact, which will be ratified on Feb. 7 when Foreign Minister I.S. Caglayangil visits Moscow, follows the signing of a huge, \$1.2 billion, 10-year economic and cooperation accord between the Turks and the Soviets, which includes the development of Turkey's iron and steel industry, energy production, and 20 other projects. Ankara has recently signed parallel trade agreements with Bulgaria, Rumania, and Czechoslovakia.

Simultaneously, Iran has agreed to supply Turkey with the necessary oil supplies to ensure the success of these development projects. On Jan. 3, the Turkish-Iraqi oil pipeline was inaugurated, with Demirel traveling to Iraq for the ceremonies and Iraq's Vice President Maarouf arriving in Turkey on Jan. 4 for parallel ceremonies.

The Iraqi-Turkish rapprochement is directly connected to the Soviet-Turkish rapprochement, according to the *Christian Science Monitor*, and is also to be seen as linked to the three-year trade and industrial cooperation agreement recently concluded between Turkey and Italy. Under the agreement, Italy's investments in Turkey will be specifically geared to Turkey's five-year development plan. According to Turkish Deputy Prime Minister Necmettin Erbakan, who negotiated the accord, it will be vital for "consolidating peace in the Mediterranean."

Substantial layers of the formerly pro-NATO Turkish military support Demirel's moves outside the traditional NATO framework. According to one university-based think-tanker close to the State Dept., not only do the young officers favor bolting from NATO, but also sections of the upper echelons — former strongholds of pro-NATO sentiment — are inclined toward Soviet-Turkish cooperation.

As shareholders in one of Turkey's largest holding companies, the military are highly sensitive to the economic straits Turkey finds itself in, and are growing

increasingly open to the notion of a new world economic order.

In an effort to undermine further Turkish motion away from NATO, Deputy Prime Minister Alpaslan Turkes, a self-avowed Nazi, has turned squads of fascist thugs loose throughout Turkey's university and high school system, terrorizing students and leaving dozens of them dead or wounded. Demirel has so far refrained from moving against his coalition partner Turkes, who commands four seats in the Turkish Parliament, out of fear of losing his parliamentary majority.

As a result, Demirel's options are being seriously restricted by Turkes, who is strongly opposing Demirel's rapprochement with the Soviets. According to the former State Dept. official, Demirel, backed up by layers in the military wants to end the Cyprus crisis and is willing to relinquish territories on the island, but he is being blocked from making concessions by Turkes, a former general who played a key role in the 1960 military takeover of Turkey.

**Former U.S. Official:
'We Have a Lot of Interests in Turkey'**

The following is an interview with a former high-level U.S. State Department official now advising Secretary of State-designate Cyrus Vance.

Q: What will Carter's policy be vis-a-vis Turkey given the growing cooperation with the Soviet Union, Iraq, and the move away from NATO?

A: We have a lot of interests in Turkey. We are not about to let Turkey fall into the arms of the Soviets. We are watching the situation closely... There will be one hell of a

fight in Washington over this situation. Cy Vance has already met with Greek-lobby senators...

Q: What are Carter and Vance doing specifically?

A: Vance will soon set up a study group of Mediterranean specialists to deal with the Cyprus issue and related matters. He realizes it is an explosive issue, though it's still on the back burner.

Q: Is there any possibility of another Cyprus crisis?

A: There's an awful lot of hot-headed Greeks on the island...

Q: Who?

A: EOKA-B. Specifically EOKA-B terrorists tied to Nicos Sampson, who pulled off the 1974 Cyprus coup, the guy tied to the Greek junta. There are lots of people who still believe in the Phoenix (the symbol of the Greek junta — ed.), who believe in terrorism, who want to burn down everything. You will soon start to see a series of isolated incidents on Cyprus, EOKA-B terrorist acts against the Turks. The Turks will put them down brutally. I don't put it past these EOKA-B people to do something ugly. I have a feeling that they're not going to sit tight. They've been too quiet for too long... Carter may soon be confronted with a crisis.

Q: Who will be involved in the mediation of such a crisis?

A: Vance. But he may have some problems. He's a little too tainted from the last time around (1967 — ed.).

Q: Turkish Prime Minister Demirel wants to make concessions to end the Cyprus crisis. What's holding him back?

A: You're right. Demirel wants to end the crisis and give back the territories. But that crazy neo-fascist — Deputy Prime Minister Turkes — is preventing him. He holds four seats in the parliament that give Demirel a majority, so Demirel feels he is stuck. Turkes' line is absolutely no concessions ever.

Smith, New York Times, Pave Way For War In Africa

The likelihood of an imminent international confrontation over Rhodesia was greatly increased this week, after Rhodesian Prime Minister Ian Smith indicated that he is not willing to cooperate with British peace initiatives in the region and that he is gearing his country for war against alleged Communist aggression. The claim of Communist aggression was repeated in an article by *New York Times* columnist Anthony Lewis, despite an article in *Pravda* yesterday essentially urging the British government to take more responsibility in Rhodesia to avoid a war.

In South Africa, Prime Minister B.J. Vorster told his countrymen that an isolated South Africa faces a "Communist onslaught," and later informed the British chairman of the Geneva Conference on Rhodesia, Ivor Richard, that he is not inclined to cooperate with the British initiatives for peace any more than Smith is.

In a meeting Jan. 2 with Richard, Smith confirmed his previous summary rejection of the British proposals for surmounting the impasse at the Geneva conference: the appointment of a British Governor-General and neutral or Commonwealth control over the contested Law and Order and Defense Ministries. "Smith's blunt rejection of British involvement in an interim government" commented the South African weekly *Financial Mail* this week, "scuttles what is probably the only device capable of reconciling the protagonists."

"In the view of the (Rhodesian) government's critics," reports the *New York Times* today, "Smith never intended, even under the Kissinger plan, to hand over to a black government." Correspondent Jon Burns also reports that Ivor Richard's "chances of getting a settlement are almost nil." Columnist Anthony Lewis expanded on these war predictions in an Op Ed, also in

today's *Times*, commenting: "The next and fateful step in escalation of the guerrilla war would be the entry of the Cubans,...Such a scenario would deeply engage U.S. interests...the installation of a revolutionary government by force of Communist arms would alarm many Americans and put at risk Carter's hopes for arms control and other agreements with the Soviet Union."

The Soviet Union, however, published an article in yesterday's *Pravda* supporting the British initiatives around Rhodesia, pointing out approvingly that the African front line states are pressuring the British into taking more and more responsibility for the Rhodesian situation, and supporting continued negotiations provided a certain amount of military pressure is kept on the Smith regime.

Leaders of the five front line states, four of whom have now met with Mr. Richard, are expected to increase this pressure on the British after a summit meeting scheduled for this weekend in Lusaka, Zambia to discuss a joint position on the extent of British participation in the interim government. Indicating the attitude the front-liners want the British to take, the *Zambian Daily Mail* said Jan. 4: "...as long as (Britain) links a solution to the Zimbabwean problem to its acceptance by Smith and the Rhodesia Front, there cannot be and will not be able to be a settlement by negotiation or constitutional ways."

In a statement indicating certain understanding of the incoming Carter Administration's motives for pushing a confrontation in southern Africa, Zambian Foreign Minister Siteke Mwale added a warning to the West to eschew any temptation to defend Smith's government from a so-called Communist onslaught: "This is a dangerous game...because it will, inevitably, result in a nuclear confrontation between East and West."

Who Rules The New China

Exclusive to NSIPS

The leadership of China's Government and Communist Party issued four top level policy documents in succession during the last week of December which will alter China's course as drastically as did the launching of the disastrous Great Leap Forward almost 20 years ago, this time in the opposite direction.*

The Western press has primarily reported aspects of secondary significance in these documents and blacked out over 80 per cent of their contents.

Worse, President-elect Carter's National Security Advisor-designate Zbigniew Brzezinski revealed views on China last April to *London Daily Telegraph* correspondent Stephen Barber that he reportedly still holds. Ignoring the changes in Chinese policy, Brzezinski said that "The Chinese have a big stake in a confident and credible United States," an image which he said would be damaged in Chinese eyes were the U.S. to pull out of Taiwan, and he advocated basing U.S. policy toward China on China's presumed continued hostility toward the Soviet Union and support for a hardline anti-Soviet policy in the United States.

However, China has embarked on a fundamentally new course in domestic affairs, one which carries dramatic implications for foreign policy. With the passing of Chou En-lai and Mao Tse-tung, the personnel occupying the highest positions of power are virtual unknowns in the West, except to a handful of so far silent scholars.

Rationality and Science To Replace Maoism

The four documents released by China's new ruling group two weeks ago form a systematic statement of policy to root out every trace of Maoist thinking and practice in the country. They go well beyond the piecemeal measures and statements that have emerged since the Oct. 7 purge of the so-called "gang of four," the four Politburo members closest to Mao before his death. The documents promise to the Party ranks and the general population a new deal based on rationality, legal procedure, and the rule of reason. Economic growth, a focus on science, technology, education and modernization, freedom of private thought and limited freedom of speech, and a rising standard of living, are the new national nostrums.

The new deal promised to the Chinese people can only be appreciated when contrasted with the psychological tyranny that the Chinese nation was subjected to under Mao. Ego-stripping, forced self-confessions of meaningless "errors," forced denunciations of colleagues and family, reinforced by a contentless information media which closed off all access to the outside world, were aimed at creating a nation of 800

million "Maoists." The promise to end these practices, now in implementation phase, is the new government's assurance to the population that the Maoism is at an end.

The speech by Party Chairman Hua Kuo-feng on Dec. 25 was the "keynote" of the four. Hua opened by making a direct appeal to the entire population to give the Communist Party a chance to regain popular confidence on the basis of future performance. Conceding in effect that public credibility has been largely destroyed in the wake of two decades of mismanagement and irrationality under Mao's leadership, and that the scientists and intellectuals needed for economic development have been demoralized by post-1965 developments, Hua said: "We must do our best to mobilize all positive factors, both inside and outside the party, both at home and abroad, both direct and indirect, and build China into a powerful socialist country." Hua called for forming a united front with the intellectuals and other non-Party people, and invited them to take an active part in national life free from the fear of arbitrary reprisals and persecutions. The New Year's Day editorial a week later called for reinstating the policy of "let a hundred flowers bloom and a hundred schools of thought contend in science and culture," a policy last pushed by Chou En-Lai in 1956-57 but aborted in practice by Mao, who turned it into an attack on the Communist Party.

Hua then detailed how the irrational, "subjective," and "idealist" mode of thought that has dominated the country since the Cultural Revolution, and the direct sabotage of theoretical and even of competent practical scientific work, will be rooted out. Hua identified this task as the next on the national agenda following the largely completed first step of blocking and exposing the plot of the "gang of four" to seize power. Hua said that with the Maoists, "metaphysics ran wild and idealism went rampant," and called on everyone "to refute the gang theoretically from the angle of philosophy, political economy, and scientific socialism." He appealed to all Party cadres to "strive to raise the theoretical level" of newspapers and journals, and "clear up the political and ideological confusion caused by the gang of four." Summing up the same point at the conclusion of his speech, Politburo member Chen Yung-kuei spelled out that science is to be the basis of the new theory in his call to "understand more of Marxism-Leninism, natural science and, in a nutshell, the laws governing the objective world, and commit fewer subjectivist errors." Hua characterized the style of writing in China's press in recent years as "vulgarized and debased by the gang of four."

Hua then addressed himself to demoralization in the Party caused since 1965 by the pervasive purges,

* The four documents are: a speech by Politburo member Chen Yung-kuei to 5,000 member Tachai Agricultural Conference in Peking, delivered Dec. 24; a speech by Party Chairman Hua Kuo-feng to Tachai Conference Dec. 25; first official release of

"Ten Major Relationships" speech given April 25, 1956 by Mao Tse-tung; and a New Year's Day editorial appearing concurrently in People's Daily, Liberation Army Daily, and Red Flag.

persecution of Party members, violation of Party regulations for entry and promotion, denial of intra-party democracy, and the forced "confessions" of "errors." He said that the Maoists brought in and promoted their followers in violation of the Party Constitution, which was "highly corrosive to our Party's organism and corruptive of the minds of our party's members...and was most harmful to the Party's fighting power and its relations with the masses." He added, "We must improve the democratic life inside the Party and among the people...and let people air their views, let people criticize, and allow the minority to reserve their differing views." He called for people's congresses during 1977 to elect new, popular-based revolutionary committees in provinces and municipalities.

Concerning questions of the economy, both Hua and Chen expanded in detail on previously indicated measures to end Maoist sabotage of production, get the economy moving again, and realize the program of Chou En-lai for making the country a major industrial power by the end of the century. Hua minced no words in stating the new policy orientation: "Revolution means liberating the productive forces...It is one of the fundamental tasks of the dictatorship of the proletariat to develop the socialist economy energetically." Hua indicated that industrial anarchy and incompetent management must cease, that the country had to "systematize rational rules and regulations and improve and strengthen socialist economic management," and stated that "management itself is a matter of socialist education." These prescriptions echoed the proposals of Teng Hsiao-ping in the summer of 1975.

Hua also said that while the importance of developing and mechanizing agriculture must not be downgraded, "we must do a good job...in heavy industries that produce fuel, electricity, petro-chemicals, iron and steel and other raw and semi-finished materials, so as to ensure the smooth operation of industry as a whole." The necessity of developing heavy industry has not been officially noted in this explicit fashion for years. As for developing the countryside, Chen criticized the post-1958 policy of deemphasizing large-scale capital projects, and called for "unremitting efforts" in larger projects that will free large areas from living at the mercy of floods and droughts.

The corpus of new policies constitutes, in sum, a turning of the clock back to 1956-57. The new policies agree to the letter with the 1956 Communist Party Constitution which was written by Teng-Hsiao-ping and others, sponsored by Liu Shao-chi, and scrapped by Mao in the Cultural Revolution. With the exception of two items, one on relations with the Soviet Union, the other on the primacy of heavy industry over agriculture, the new program largely nullifies the Maoist 1973 Constitution. The thorough going expungement of the Maoist orientation on every question refutes the Western observation that the anti-Maoist purge was largely personal revenge-seeking and a mere power-play; it is grounded in fundamental principles.

Why The Army Led The Purge

It is a truism in the West that "the army" was the decisive factor in the purge of the top Maoists on Oct. 7 and in the continuing purge of their followers. However,

a close analysis reveals which faction of army (and some Party) leaders, whose past records and policies are known and whose likely future policies can therefore be predicted with substantial confidence, is really running the purge. Identification of those persons is based largely on the reemergence to public prominence since Oct. 7 of many leaders of known anti-Maoist proclivities, and the emplacement of many more such leaders in strategic posts since 1971.

The real power in China is held by a unified grouping composed of senior military men, and longstanding Party members led by Teng Hsiao-ping. This group is momentarily sharing power with a loose assortment of other military and Party leaders who rose to prominence during or after the Cultural Revolution. The members of this latter group lack the extensive networks of personal and party connections of those in the first grouping and were in various degrees of political association with the purged Maoist leaders or the late former Defense Minister, Lin Piao. A substantial plurality are in jeopardy of being purged soon themselves.

The members of the first group are to a man veterans of the Long March (1933-35) and the Civil War, during which period political and military questions merged into one and commanders, political commissars, and Party leaders were frequently interchanged. They thus have never represented fundamentally distinct "military" or "civilian" viewpoints, and today share a unified perspective for post-Mao China. They are fully united in putting China firmly on the course of socialist development for which they fought a 20-year revolutionary war. The main significance of the preponderance of military men in the new ruling group is that their control of most of China's troops was essential for purging the Maoists and preventing civil war.

The core of the anti-Maoist faction was composed of the entire Peking-based central military establishment, and the commands of about half of China's 11 military regions. The power of these leaders derived from the fact that most of them were too militarily powerful to be purged during the Cultural Revolution, and they were able to further extend that power after the purge of Lin Piao in 1971. With Lin's fall, no Maoists except Mao himself who had any military power or background remained on the Military Affairs Commission (MAC), the highest military body. MAC controlled the main force units, the best trained, most heavily armed troops organized in armies of three divisions scattered throughout the country. Lin's fall also weakened Maoist power in the military regions (MR). The MRs are run by commanders and their paired commissars, who have control of second level troops, less armed but still formidable, stationed in their regions — these troops saw extensive use in the Cultural Revolution. Below them are province troops commands, the weakest units, and the urban militia, built up by the Maoists since 1971 as a potential counter to the army.

The Uncompleted Purge

The existing distribution of political and military power at the time of Mao's death on Sept. 9 of last year was the result of a purge of only one wing of the Maoist faction, carried out in 1971. The situation in 1971 was a very dangerous one. Mao had succeeded in purging

almost the entire Communist Party leadership in the Cultural Revolution in 1966-67 — of some 220 provincial party secretaries, over 180 were purged, including all but two first secretaries (out of 29), and almost all the central leadership — while failing to replace these leaders with new ones loyal to himself. With the Party wrecked, the People's Liberation Army (PLA) under Defense Minister Lin Piao had been forced to take over the reins of provincial and local government. Lin had promised to support Mao back in 1959, in return for being named Defense Minister, and had supported the Cultural Revolution. Mao had also promoted a handful of his followers, led by his wife Chiang Ching and the "Shanghai mafia" of Chang Chun-chiao and Yao Wen-yuan, to top posts, and they worked closely with Lin. However, when Lin tried to consolidate personal control over the PLA by putting men loyal to himself in central and regional commands, he provoked the opposition not only of the anti-Maoist commanders, but of Mao himself, who refused to countenance a military dictatorship under Lin Piao.

Thus, in 1971, Mao was forced to make a deal with Chou En-lai and the anti-Lin regional commanders and senior Peking military men: in return for their support in purging Lin and his top followers, Mao would permit the "liberation" (rehabilitation) and appointment to top posts of most of the Party and PLA leaders purged in the Cultural Revolution. The return of Teng Hsiao-ping in 1973 and his rise to effective control of the rebuilt Party apparatus was probably specifically agreed to. Lin's faction was henceforth purged, and Lin himself killed in mysterious circumstances, in September 1971.

With the military half of the Maoist faction gone, the twilight period of the uneasy coalition between Mao's Party and army opponents, and his civilian followers led by Chiang Ching, the misnamed so-called "moderates" and "radicals," commenced. Between 1971 and 1976, the remaining Maoists attempted to limit the rehabilitations, purge whom they could, create general chaos to destabilize their opponents, and create their own military arm in the urban militias. The anti-Maoists liberated every cadre they could, asserted control over the central military apparatus, took over near-total control of the reconstituted provincial party machines, and bided their time until Mao's long-awaited death to finish the aborted purge.

Key in the anti-Maoist grouping during this period was a top general relatively unknown in the West but very well-known and respected in China, Liu Po-cheng. Liu was the commander of the 2nd Field Army during the Civil War, a brilliant general and lifelong opponent of Mao's military policies, who was placed on the Politburo in 1966.

His 2nd Field Army was one of five that constituted the Communist Party's military forces in 1949, and largely because of Liu's continuing influence, commanders who had been under him generally retained power throughout the Cultural Revolution, despite strong attacks from the Maoists. The long and personal associations between men who fought together during the 20-year revolutionary war forged bonds which in most cases have persisted to the present, and which played a major role in overthrowing Lin Piao. Four former 2nd FA

generals in command of military regions gave vital support to Liu Po-cheng and other anti-Lin forces in Peking in dumping Lin in 1971; the same grouping led the completion of the purge in 1976.

The four were Hsu Shih-yu, entrenched in the Nanking MR since 1954; Chen Hsi-lien, commander since 1959 of the strategic Shenyang MR along the sensitive Siberian border with the Soviet Union; Han Hsien-chu, commanding the Foochow MR facing Taiwan since 1960 and Yang Te-chih commander of the Tsinan MR since 1958. At the center in addition to Liu Po-cheng were Chu Teh, commander in chief during the Civil War and staunch anti-Maoist (died in June, 1976) Yeh Chien-ying, second in command in the Civil War and now the Defense Minister and top military leader in Peking; Nieh Jungchen, commander of the 5th FA, Hsu Hsiang-chien, deputy commander of the 2nd FA under Liu Po-cheng; and Su Yu, senior surviving military commander of the 3rd FA, which had worked close with the 2nd FA from 1937-49. All of these central figures, except Liu who is now blind and bedridden, have emerged since Oct. 7 as top leaders, along with Hsu Shih-yu and Chen Hsi-lien, the only two MR commanders on the Politburo.

During the 1972-76 period, the influence of Liu and his regional allies was reflected as well in the stunning return of Teng Hsiao-ping from oblivion to be heir apparent to Premier Chou En-lai by 1975. Teng had been Liu Po-cheng's political commissar and close friend from 1937-49, and had a network of supporters throughout the 2nd FA and elsewhere in the PLA. Teng was well-suited to lead the rebuilt Communist Party because of his contacts going back to 1921, and his experience as Party secretary-general from 1954-66. Chou En-lai, whose kingpin role in dumping Lin and reconstituting the Party apparatus is well-known, also worked closely with the military leaders and Teng to bolster the anti-Maoist faction.

The purge of Lin was accompanied by the purge of three pro-Lin military region commanders, one in the crucial Peking MR, the second in the sensitive Sinkiang region bordering the Soviet Union, and the third the populous Chengtu MR, and their replacement by 2nd FA generals Li Teh-sheng, Yang Yung, and Chin Chi-wei respectively. Two generals from the 3rd FA, Wang Pi-cheng and Pi Ting-chun, were appointed in the Kunming and Lanchow MRs in 1971, and probably replaced Lin Piao people, but their immediate predecessors are not known.

With most of the MRs under firm control, the anti-Maoist military leaders, Chou En-lai, and after 1973 Teng Hsiao-ping, worked together to pack as many formerly purged anti-Maoists and other supporters into military posts in Peking and the provinces, and into provisional Party posts, as they could. They were limited only by the Maoist faction's ability to corral the mentally fading Mao to intervene into Party affairs on their behalf: direct contravention of Mao Tse-tung was the one step his opponents steadfastly refused to take, wishing to preserve the ability to use Mao's name after he died. The chart of the Central Military Command (see Table 1) reveals that by 1976, near total control was exercised by the anti-Maoists, except for the posts on the Military Affairs Commission of "Shanghai mafia" members Chang Chun-chiao and Wang Hung-wen and Chang's

Table 1

CENTRAL MILITARY COMMAND

<p align="center">Military Affairs Commission</p> <p>Yeh Chien-ying Wang Hung-wen (purged Oct. 7) Chang Chun-chiao (purged Oct. 7) Hsu Hsiang-chien (2) Liu Po-cheng (2)</p> <p>Nieh Jung-chen (5) Chen Hsi-lien (2) Su Yu (3) Li Teh-sheng (2) Yang Cheng-wu (5) (L)</p>		<p align="center">Defense Minister Yeh Chien-ying</p>
<p>General Staff Department Dir.: vacant Dep. Dirs: Yang Cheng-wu (5) (L) Li Ta (2) (L)</p>	<p>General Logistics Department Dir.: Chang Tsung-hsun (1) 2</p>	<p>General Political Department Dir.: Chang Chun-chiao (purged Oct. 7) Dep. Dir.: Liang Pi-yeh (4) 1 (L)</p>
<p>Navy Cdr.: Hsiao Ching-kuang 4 Pol. Cmsr: Su Chen-hua (2) (L)</p>	<p>National Defense Scientific Commission Dir.: Chang Ai-ping (1) 3</p>	<p>Air Force Cdr: Ma Ning (2)</p>
<p>Artillery Corps Cdr. Chang Ta-chih (1) 3</p>		<p>Armored Corps Cdr.: Huang Hsin-ting (1) (L) 3</p>

<p>Key</p> <p>numbers in parenthesis indicate primary field army affiliations, (L) indicates rehabilitated cadres, <i>footnotes in italic.</i></p>	<p><i>footnotes:</i> 1— from Lin Paio's army, but opposed Lin 1966 and was purged. 2— long, close association with Teng Hsiao-ping. 3 — from 1st Field Army, which was decimated in Cultural Revolution; support anti-Maoists. 4— held post since 1950, anti-Maoist</p>
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Table 2

COMMANDERS OF MILITARY REGIONS

Hsu Shih-yu (2): 1954-73 Nanking MR; 73-, Canton MR
 Yang Te-chih (2): 1958-73, Tsinan MR; 73-, Wuhan MR
 Chen Hsi-lien (2): 1959-73, Shenyang MR; 73-, Peking MR
 Han Hsien-chu (2): 1960-73, Foochow MR; 73-, Lanchow MR
 Tseng Ssu-yu (4): 1967-73, Wuhan MR; 73-, Tsinan MR
 Ting Sheng (4): 1968-73, Canton MR; 73-, Nanking MR
 Wang Pi-chung (3): 1971-present, Kunming MR
 Pi Ting-chun (3): 1971-73, Lanchow MR; 73-76, Foochow MR 1
 Yang Yung (2) (L): 1971-present, Sinkiang MR
 Li Teh-sheng (2): 1971-5, Peking MR, 73-, Shenyang MR
 Liu Hsing-yuan (4): 1976-present, Chengtu MR 2

Note: The above indicates the total control of anti-Maoists over the Central Military Command and the split within the military region commands. Four Second Field Army anti-Maoists with long seniority are the strongest figures; two people were put in by Lin Piao in 1967-68; four anti-Lin people were installed in 1976. The anti-Maoists totally predominate.

<p>Key</p> <p>numbers in parenthesis indicate primary field army affiliations, (L) indicates rehabilitated cadres, <i>footnotes in italic.</i></p>	<p><i>footnotes:</i> 1— Pi was probably assassinated by Maoist sabotage of his helicopter, in which he died in an "accident" summer 1976 2— Replaced Chin Chi-wei (2) in 1976, reasons unknown.</p>
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appointment to head the General Political Department (which oversees the commissar system — in the Chinese military, every commander has a corresponding political commissar).

As for the Party structure, the table (Table 3) of first party secretaries (the highest provincial post) reveals the degree of anti-Maoist consolidation in the crucial populous regions of south, southwest and central China — most other provincial party organizations were also run by anti-Maoists except for Shanghai and Liaoning in southern Manchuria. The balance on the Politburo was not so favorable (see Table 4 — the four purged Maoists are not listed, but held positions no. 2, 4, 5, and 6) nor on the Central Committee, where nearly half were presumed Maoists.

Thus, it was real power, as reflected in control of the main army units, supported by the provincial party machines, that overrode nominal power in the Party's

central organs when the anti-Maoist purge began with the Oct. 7 arrest of the "gang of four." The only wrinkle in the anti-Maoists plans was the death of Chou before that of Mao. The longer Mao lived after Chou's death on Jan. 8, 1976, the more disruption and chaos the Maoists caused, and as Hua Kuo-feng has now confirmed, a danger of civil war did exist in September. The much-publicized accounts of violence in recent weeks do not indicate serious continuing threats to the regime, but the price of mopping up the pre-October pockets of Maoist strength and dealing with the results of a general crisis of public confidence and collapse of law and order.

Since October few changes in central personnel have been made official. Li Hsien-nien, long-time 2nd FA man, is acting as prime minister, and a life-long anti-Maoist and pro-Soviet in the 1960s, and former Politburo member, Tan Chen-lin, has surfaced to perform many public and diplomatic functions and will likely be on the next Politburo. Campaigns have also begun in the provinces to purge many of the Maoists on the Central Committee. These moves will eventually culminate in the selection of a new Central Committee and Politburo, but no dates have been set.

As for the remaining Politburo members other than the four already mentioned (Li Hsien-nien, Liu Po-cheng, Chen Hsi-lien and Hsu-Shih-yu), some may be allowed to stay on, others are almost certain to be dumped (see table 4). Hua Kuo-feng, who has become the public instrument of the anti-Maoist coup, and Chen Yung-kuei, the former peasant from the model Tachai Brigade, have

Table 3
FIRST SECRETARIES OF SOME
PROVINCIAL PARTY COMMITTEES
FROM SOUTH; SOUTHWEST
AND CENTRAL

Kiangsi: Chiang Wei-ching (L), appointed by Teng, Jan. 1975

Fukien: Liao Chih-kao (L), appointed by Teng, Jan. 1975

Shantung: Pai Ju-ping (L), appointed by Teng, Jan. 1975

Hupei: Chao Hsin-chu (L), appointed by Teng, May 1975

Szechwan: Chao Tzu-yang (L), appointed by Teng, Dec. 1975

Yunnan: Chao Chi-yun (L), appointed by Teng, Dec. 1975

Kwangsi: An Ping-sheng (L), appointed by Teng, Dec. 1975

Hunan: Chang Ping-hua (L), appointed 1972, close to Li Hsien-nien

Chekiang: Tan Chi-lung (L), responsible for putting down Maoist riots in Hangchow city, 1975.

Kiangsu: Peng Chung (3), strong anti-Maoist, now in day to day charge of Shanghai

Hopeh: Liu Tzu-hou (2), anti-Maoist

Kwangtung: Wei Kuo-ching (3), never toppled in Cultural Revolution, fierce anti-Maoist, only province head on Politburo

Honan: Liu Chein-hsun (2), only other province official not purged in Cultural Revolution, close to Liu Po-cheng

These provinces represent the areas where the anti-Maoists, largely under Teng, moved in to take control; not accidentally, they have therefore become the areas with the greatest amount of violence reported during 1976

Key

numbers in parenthesis indicate primary field army affiliations, (L) indicates rehabilitated cadres, *footnotes in italic*

Table 4
PARTY LEADERS

Politburo (in order of precedence)

Hua Kuo-feng, Chairman

Yeh Chien-ying

Li Hsien-nien (2)

Liu Po-cheng (2)

Chen Hsi-lien (2)

Hsu Shih-yu (2)

Chi Teng-kuei (??)

Wang Tung-hsing

Wu Teh

Chen Yung-kuei

Wei Kuo-ching (3)

Li Teh-sheng (2)

alternates

Su Chen-hua (2)

Saifudin

Ni Chih-fu

Wu Kuei-hsien

Key

numbers in parenthesis indicate primary field army affiliations, (L) indicates rehabilitated cadres, *footnotes in italic*.

both fully joined the anti-Maoists. Chi Teng-kuei rose on the Maoists' coattails but formerly supported the purged Liu Shao-chi and can probably save himself. Wang Tung-hsing, a long-time Maoist and head of Mao's bodyguard, spy and hit squad unit, the 8341 Corps, is a marked man soon to be purged. Wu Te, Peking mayor and former Maoist will probably be purged also. Wei Kuo-ching, the first secretary in Kwangtung province, massacred Maoists by the thousands in 1967-68 and still survived, and has been an important member of the anti-Maoist group all along. Li Teh-sheng, despite his 2nd FA background, was a junior officer before 1949 and rose under the Maoists, but will probably be allowed to stay on. Of the alternates, Su Chen-hua is an important anti-Maoist who was made first secretary in Shanghai in October, Saifudin is a life-long anti-Maoist, Ni Chih-fu is a formerly Maoist worker who has switched sides, and nothing is known of the only female member Wu-Kueih-sien except that she was promoted by the Maoists.

Three regional commands are held by probable former Lin Piaoists from Lin's 4th FA, Tseng Ssu-yu, Ting Sheng, and Liu Shsing-yuan (see Table 2). All three are probably in jeopardy of purge, and unconfirmed reports say that Ting Sheng has not been since Oct. 25, and that Tseng has been criticized by Peking, while reports of near civil war in Liu's Chengtu MR suggest he may be in trouble there. Liu replaced 2nd FA anti-Maoist Chin Chi-wei for unknown reasons early in 1976, possibly through Maoist pressure.

Thus, China is today ruled by a directorate of the Military Affairs Commission leaders, the leading Politburo anti-Maoists, the anti-Maoist MR commanders, and Teng-Hsiao-ping, soon to be rehabilitated and perhaps appointed prime minister. This group represents a *unified* leadership body, the first the Chinese Communist Party has had since 1927, and the first unified government China has had since the days of the Ching Dynasty. Its unity derives partly from the strong *personal* ties, still extremely important in China, which date back to the 1930s or even 1920s, and partly from the agreement on policy its members have shared over the same time span.

The bonds that tie Hsu Hsiang-chien, Chen Hsi-lien, Hsu Shih-yu, Li Hsien-nien and Tseng Shao-shan (Liaoning party first secretary) are exemplary. They all made a long march together in 1932-33, one no less heroic than Mao's, under Chang Kuo-tao, and two years later saved Mao and his forces from total destruction, only to have Mao double-cross them and later try to purge them in 1937. (Chang Kuo-tao, the unsung hero of the CCP, led 40,000 fresh troops to western Szechwan to rescue Mao's bedraggled 10,000 Long Marchers; after resting, Mao fled north leaving Chang and his troops trapped behind for a year. In 1937, Mao drove Chang out of the Party and tried to purge his generals. Hsu Shih-yu organized a revolt against Mao that failed, but did halt Mao's purge.) Their opposition to Mao dates back quite far. Another 2nd FA subgroup, the trio of Yang Yung, Su Chen-hua and Yang Teh-chih, worked closely together in eastern China during the Anti-Japanese War. Every member of the new leadership grouping has similar personal ties to other members.

Second, these leaders have always seen eye to eye on

all important military and political questions. They all favored and employed Soviet military methods — four, Liu Po-cheng, Yeh Chien-ying, Nieh Jung-chen and Li Ta, were trained in Moscow, the rest by Soviet instructors in China — and were at perpetual loggerheads for 20 years against Mao Tse-tung whose peasant guerrilla ideas would have gotten the communist forces wiped out several times over had they been employed except as subsidiary support tactics. In the 1950s, they opposed Mao's insistence on guerrilla defense tactics, and counterposed professionalizing and modernizing the armed forces. Their opposition to Maoism was solidified by the Cultural Revolution that wrecked the Party they had helped build for 40 years, sabotaged China's aid to Vietnam, and led to potentially disastrous, useless military clashes with the Soviet Union. In fact, Su Yu as head of the National Defense Industrial Office was responsible for preventing Red Guard sabotage of the defense industry, while Nieh Jung-chen, heading the National Science and Technology Commission, was in charge of preventing disruption of military Research and Development programs.

China's Future Foreign Policy

The foregoing establishes that the new leadership — excepting those slated for demotion or purge — represents a sociological formation analogous to the Bolshevik Party in the Soviet Union, especially after it was tempered in the Civil War and World War II — and much more unified. China is now ruled by socialists as it was not before; Mao was not a socialist. Beyond their military brilliance, the new leaders above all are based in China's socialized industry and collectivized agriculture, and are firmly committed to progress and development — along a modified but essentially Soviet-style model. As leaders of an underdeveloped nation in desperate need of technology, capital, and foreign trade, the new ruling group can be expected to chart a domestic and foreign course accordingly.

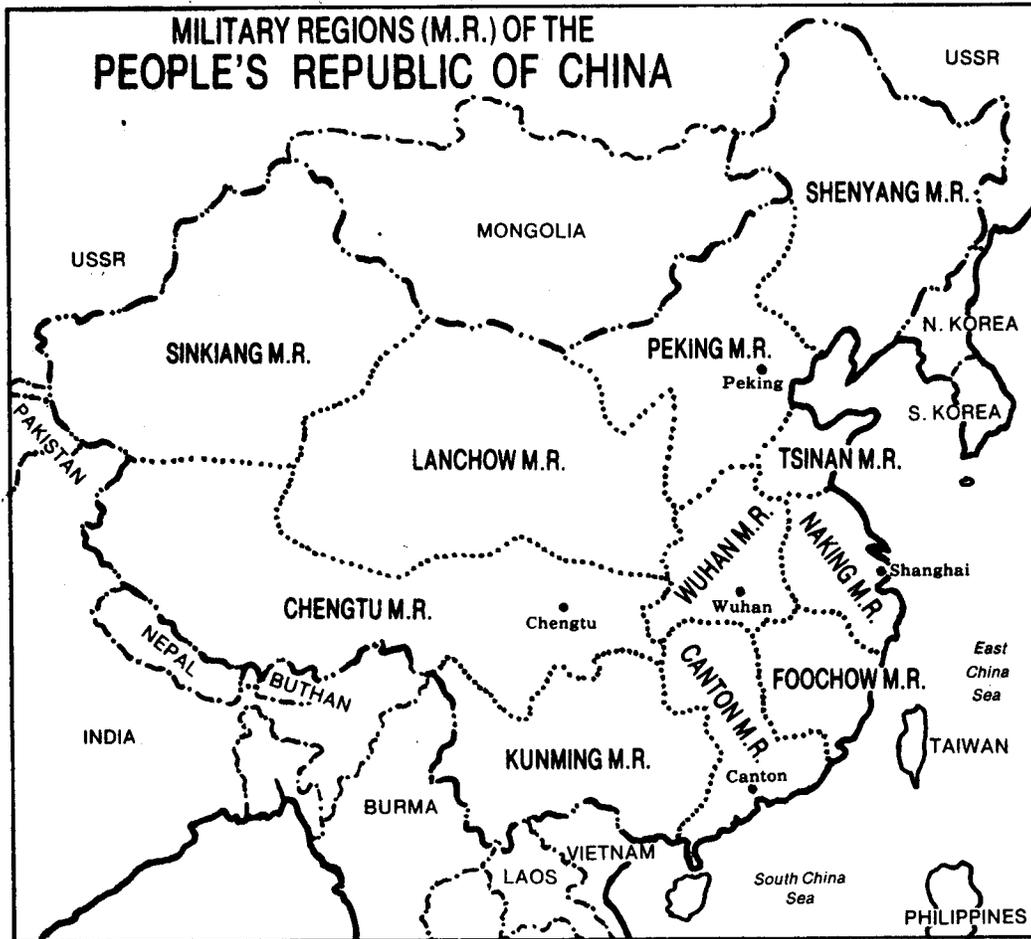
Their backgrounds and current policy pronouncements reveal that the new leaders have never entertained the slightest illusions concerning the wretchedness and irrationality of "Mao Tse-tung Thought." Despite Western hopes to the contrary, this clear perception of reality will permeate foreign policy as surely as it already has domestic, albeit more slowly. Any attempt in the West to base relations with China on the assumption of a continuation of any element of Mao's foreign policy will be as misguided as to wait for a comeback of the "gang of four."

What will China's foreign policy evolve toward? It will in short order begin to propel China into the forefront of progressive Third World nations fighting for the New International Economic Order. The contours of the new economic order in turn will strongly influence China, particularly the growing cooperation between OPEC, Europe and the Third World, Europe's piece by piece break with the dollar and with Carter, and the increasing Soviet-Comecon integration into this emerging order, exemplified by the new transfer ruble proposal. China's relations towards the Soviet Union and the United States — the only items of apparent interest in the West — will

be subsumed by these global considerations. While Soviet relations may dramatically improve as soon as the purge is completed at the top levels, the biggest pressure for change of Mao's anti-Soviet posture will come from the Third World and European efforts to forge world cooperative development, involving both countries in joint world endeavors. Similar considerations will define China's policy toward the United States: if Carter continues Kissinger's sabotage of the New International Economic Order, Chinese friendship for the U.S. will fast

evaporate; if Carter's push for war is not stopped, China will respond the way Europe is now, by hostility and opposition.

Hua Kuo-feng hinted at such an orientation in his exhortation printed above: "mobilize all positive factors...both at home and abroad...to build China into a powerful socialist country." Those who insist on using the past as a guideline as Brzezinski intends, will reap a harvest of errors and miscalculations, and will merely accelerate China's break with the past.



Japan's First Two Weeks Under Fukuda

Japan's new foreign minister Ichiro Hatoyama announced today that Japanese ambassador to Washington Fumihiko Togo was being recalled to Tokyo to discuss a proposed meeting between Japanese premier Takeo Fukuda and U.S. President-elect Jimmy Carter sometime in February or March. The meeting between the two men, proposed by Fukuda, will cement existing tight political alliance between the two governments which has already emerged after the Fukuda government's first two weeks in office.

Reflecting Washington's new hawkish policy, the Japanese Foreign Ministry told the Soviet Union on Nov.

29 that Foreign Minister Hatoyama was "too busy" to visit Moscow next month for regular Japan-USSR ministerial talks. The Moscow conference had been delayed because of the MIG-25 incident and the Japanese elections campaign. Fukuda's decision was a direct reversal of the policies of his predecessor Takeo Miki, who had made it known only a few weeks before Fukuda forced him out of power that he wished to visit Moscow personally.

The Fukuda government's anti-Soviet posture was reiterated by Tatsuo Tanaka, a Fukuda faction member who is the new head of Japan's powerful Ministry of

International Trade and Industry. Tanaka, in an interview with Mainichi, warned that Japan was exporting sophisticated plant equipment "not only to developing countries but to East Europe in a way which was too dangerous" and which would hurt Japan's competitiveness. Tanaka called for an "immediate change" in this attitude.

Tanaka also declared that Italy and Great Britain, two major supporters of a new international economic order, were facing economic difficulties "for the most part due to their over-inclination to Communistic policies," and ordered the two nations to get back on the "original tracks."

Japanese Rearmament?

Fukuda has also taken the initial steps towards a major expansion of the Japanese armed forces, according to the Kyoto News Service. Citing informed sources, Kyoto reported Jan. 2 that the Japanese Defense Agency, now led by Asao Mihara, a former "Manchukuo" bureaucrat from the 1930s, has begun studying the buildup of Japanese defenses on the coast facing the Korean peninsula. The move signals a reversal of the Japan Defense Agency's policy of not militarily "filling the gap" in case of a U.S. withdrawal. The hawkish nature of the new JDA was also confirmed by the appointment of Koichi Hamada, a member of the ultra-rightist Seirankai group in Japan's parliament, as the new JDA vice-minister.

The Japanese are afraid that the United States will scrap the so-called "Korea clause" which former premier Miki and President Ford reconfirmed in 1975 to insure U.S. military protection of South Korea, according to the Jan. 1 *Mainichi*. The Miki cabinet on Oct. 29, 1976 adopted an outline plan on Japanese military buildup based on the clause to replace the current five year Fourth Defense Buildup Program which expires in March. The Miki plan, which holds defense spending to less than 1 per cent of Japan's GNP, will come under intense pressure for extensive revision by the Fukuda government. The Japanese Foreign Ministry itself is already worried that the U.S. will force Japan to expand militarily according to the Dec. 23 *Asahi*. Besides direct military support, the Foreign Ministry believes the U.S. may ask Japan to strengthen South Korea "by helping nurture a defense industry there and by supplying South Korea with non-military goods."

The Opposition

Fukuda's reversal of the Miki government's policies, while no doubt pleasing to his friends in Washington, has already provoked opposition among Japan's powerful industrialists, the Zaikai, who are heavily dependent on trade with both the socialist and the developing sector, and who fervently believe that "politics" is subordinate

to "economic diplomacy."

In a move to pressure Fukuda to lift the restrictions on loans to the Soviet Union by Japan's Export-Import Bank, which Fukuda imposed some months ago as head of the Economic Planning Agency under Miki, Nippon Steel last week made public a warning from the Soviets that Japan stands to lose several hundred million dollars in steel pipeline orders if the restrictions continue. The Sakhalin Development Corporation, a consortium of Japanese industry, has spurned MITI head Tanaka's caution by signing an agreement with the USSR for joint oil exploration in Siberia. Keidanren, the major business federation, has announced that it will send a high-ranking delegation to Vietnam in February to negotiate oil development and petrochemical deals.

Nor is the Soviet Union standing idly by! It may well have been preparing a major new initiative to conclude a Japan-Soviet peace treaty at the now postponed ministerial talks between the two nations, according to Japanese government officials interviewed in the Jan. 1 *Mainichi*. The Soviet proposal would involve the immediate return of two of four territorially disputed islands to Japan and a peaceful agreement concerning Japanese fishing rights. The Soviets would also agree to continue negotiations for returning the other islands to Japan. (The Soviet proposal is even more favorable to Japan than a proposal by Mr. Hirazawa, one of Miki's top advisors, which he put forward last year to end the dispute.) It is quite possible that Fukuda, realizing that something like this was in the works, delayed Hatoyama's Moscow visit. Any such settlement of the northern islands question would enable both countries to sign a peace treaty which would enormously expand already existing Japan-Soviet economic cooperation.

Fukuda's Dilemma

Fukuda's major problem, after his rise to power by a series of cunning maneuvers, is his lack of any mandate from Japan's population to take it on his right-wing course. Many business circles who helped Fukuda only want a government which, unlike Miki's could successfully manage important economic bills through Japan's Diet. These business leaders had been scheming to form a "stable conservative government" by fostering a tie between Fukuda and former Finance Minister Masayoshi Ohira. One key business "middleman" between Fukuda and Ohira was the head of the Japan-Soviet business cooperation committee and former Nippon Steel head Shigeo Nagano according to the Dec. 25 *Asahi*. These men admire Fukuda's skills as an economic bureaucrat but not as a warhawk politician. Some of them are now wondering, as are Japan's major newspapers, if the Fukuda government will be short-lived.

Latin America on Brink of Second 'War of Pacific'

Exclusive to NSIPS

Major U.S. media this week issued a sudden burst of coverage on the rising tensions in Latin America's southern Pacific region which have brought Peru, Chile, and Bolivia to the brink of war. The purpose of this coverage is to prepare the U.S. population for the intervention of U.S. "peacekeeping" forces into Latin America should a Second "War of the Pacific" break out, as the following report makes clear.

CBS television news Dec. 31 featured a lengthy filmed report from Arica, Chile — heart of the disputed territory — detailing the history of the feud between Peru and Chile, and the most recent incidents that have brought the region to the point of a possible "Second War of the Pacific." *Time* magazine, in a feature this week entitled, "Girding for a Bloody Anniversary," identified the region as "another entry to the list of potential troublespots around the world." Placing the blame on "nationalism" and Peruvian revanchism, *Time* nearly predicted a bloody war before the 1979 100th anniversary of the original War of the Pacific (1879-1883).

The unresolved territorial hostilities between Peru and Chile have simmered for a century, flaring up periodically and particularly around Bolivia's century-long petition for an access corridor to the Pacific Ocean lost to Chile in the 1879 war. The mutual angry rejection by both Chile and Peru of the other's proposals for a settlement of the "Bolivia access" question during November have set the two nations on a collision course. Both Peru and Chile have launched highly publicized campaigns to mobilize their populations behind the respective, intransigent positions, and in the last month both national press have engaged in a vituperative mudslinging exchange. While both governments officially express their continued and lasting friendship and desire for peace, both are, according to a range of reliable sources, taking "precautionary" measures in preparation for possible war.

The "Rand Scenario" — Trilateral War Policy

The CBS and *Time* coverage is less an innocent reflection of a dangerous situation — as it may appear — than a statement of intent by the Rockefeller-led Trilateral Commission and Rand Corporation thinktank to promote war in the southern cone. The Rand Corporation's profile of the historical proclivity for regional wars in Latin America has been the basis of U.S.

policy toward Latin America for at least the past two years under Secretary of State Henry Kissinger, and the mechanism for the exercise of continued, indirect U.S. political control of the continent. In a policy paper written expressly for the first Linowitz Commission in 1974, Rand staffer David Ronfeldt identified the 1970s as a period of renewed emphasis on "external defense against neighbors," detailing a scenario for nationalist military conflicts across the continent. Ronfeldt concluded by recommending that the U.S. end all restrictions on sales of military equipment to Latin America, and offer weaponry on a strictly "commercial" basis — a policy which, by his own definition, would feed the "Rand Scenario" for regional war. Any war, he notes, would be short — "a week or two, about the time it would take to arrange international mediation to restore order."

The policymakers behind the Trilateral Commission-stacked Carter Administration, who openly espouse a policy of seeking early confrontation with the USSR, are equally committed to employing Rand's scenario. One of the recommendations to the Carter Administration of the second so-called "Linowitz Report" issued Dec. 20, 1976, is the 1974 Ronfeldt arms sales policy. The Brookings Institution's comprehensive policy document "Setting National Priorities: The Next Ten Years" is more explicit. Citing the danger of conflicts within the Third World, Brookings recommends that: "In Latin America we should be prepared to join any action by the OAS that may be agreed on in response to uses of force that extend across national frontiers, leaving it largely up to the Latin American countries to decide what that response should be; and we should be prepared to provide military assistance to threatened governments."

A second War of the Pacific — or near-war — would provide the rationale for a U.S.-OAS "peacekeeping" intervention in the region, using as a cornerstone the U.S. continental surrogate, Brazil.

Target: Peru

The Rand scenario for regional wars has been used most effectively against Peru, particularly against the pro-development regime of President Juan Velasco Alvarado, deposed in August 1975.

The threat of a provoked war has functioned as a key bludgeon against remaining pro-development military opposition to Peru's right-wing turn over the past year.

The right wing turn in Peru over the last year itself tends to greatly increase the potential for a war. With the right-wing military, the primary source of revanchist hatred for Chile, now effectively in control in Peru, that country can play out the "aggressor" role assigned it by Rand and Brookings, and built up in *Time* this week. According to *Time* and commentaries in the U.S. and Chilean press concerning the Peruvian purchase of 36 Soviet fighter bombers last fall, Chile is now the "underdog" in any conflict situation, rendered militarily inferior by the Congressional cut off of arms sales to the repressive Pinochet regime.

Closer to the Brink

Time magazine, faithfully portraying the Rand scenario, noted that a Peru-Chile conflict "could tempt other countries on the continent into similar action. Potentially volatile territorial disputes...simmer between Venezuela and both Guyana and Colombia, and also between Peru and Ecuador."

All the elements are in place for setting the "War of the Pacific" tinderbox aflame.

* According to both *Time* and the Bolivian nationalist Institute of Geopolitical Studies, which has cautioned repeatedly against Bolivian involvement in an arms race and war which that country is sure to lose, both Peru and Chile have begun serious "precautionary" buildups and fortification of their border troops. The Institute described Dec. 1 "a complete defensive apparatus...on both sides of the so-called "line of concord" (Peru-Chile border — ed.) which, because of the bunkers, parapets, artillery, tanks at the ready and military aviation permanently overflying the borders on observation...looked rather like the type of 'Maginot Line' which France built against Nazi Germany."

* Bolivia, traditionally at the mercy of Peru and Chile, assumed last week a markedly more aggressive attitude. Bolivian Army commander Gen. Raul Alvarez Penarandas called Dec. 30 on the population to "prepare

militarily in order to guarantee our national security and (territorial) sovereignty." "Despite our pacifist nature we were involved in conflicts before...without being militarily prepared," Alvarez declared, referring to the defeat and territorial losses of Bolivia and Peru to Chile in the 1879-83 War of the Pacific. "The errors of history should not be repeated." Bolivia's turnabout, and entry into the so-called "Andean arms race," intensifies the sense of inevitability of war in the region.

* Complementing the Bolivian twist to the Rand scenario, is the continuing right-wing cabinet takeover in Ecuador, Peru's northern neighbor and historical secondary geopolitical foe. Army chief and junta member Gen. Duran Arcentales is fanning old border tensions with Peru as a means of offsetting the challenge of a significant nationalist faction within the Army. Renewed Ecuadorian right-wing claims on Peruvian territory — awarded to Peru following the defeat of Ecuador in a short 1941 border war — have raised the spectre of a potential "second front" against Peru.

* For the first time in over a year, Argentina and Brazil — the two "big powers" in Latin America and traditional rivals for geopolitical hegemony — have been drawn into the dispute. Argentine Foreign Minister Admiral Cesar Guzzetti, the first cabinet member to officially comment on the war danger, characterized Bolivia as a "zone of expectant conflict." In statements reported in the Buenos Aires daily *El Cronista Comercial* Jan. 4, Guzzetti added that Bolivia deserves Argentina's "confident solidarity." Brazil has not yet officially responded to the "hot spot," but has quietly demonstrated its support for the Banzer government which Brazilian troops helped to install in 1973. Bolivian Army chief Alvarez met with the Brazilian War Minister and other top officers in Brasilia in early December, and signed a deal to purchase Brazilian military equipment and weaponry. Upon return, Alvarez publicly emphasized the Brazilian military's "full agreement" with the political ideas of the Banzer government.

Venezuela The Key to Latin America's Future

In his New Year's address to the nation, Venezuela's President Carlos Andres Perez presented what is in effect the defining political groundwork behind his November tour of Western Europe and the Soviet Union on behalf of the Third World demand for a new international economic order. These state visits, particularly to Rome, London and Moscow, and their consequent trade agreements, have firmly tied the Perez government to the expanding three-way commercial flows involving the EEC, the Comecon, and OPEC, a development that represents increasing independence from dollar-sector trade credits and oil supplies.

The remarkable feature of Perez's appended speech, beyond his reaffirmation of the determination to achieve the new order and the willingness to use oil for leverage, is that it locates the process through which the emerging de facto economic order internationally is turned into the high-technology industrialization that the Third World needs locally. That process is the development of labor power.

President Perez is only too acquainted with the effects of economic backwardness on the cognitive powers of the Venezuelan population, and his call for arresting the appalling malnutrition among children, coupled with a

program for turning the nation's "industrial plants into classrooms," underscores his awareness that development without a healthy, educated, and skilled work force is impossible. Equally important, however, is Perez's emphasis on capital-intensive industrialization, a direct rejection of the labor-intensive techniques espoused by zero-growth currents within Venezuela linked to institutions such as the World Bank and the International Monetary Fund.

By turning Venezuela into what Perez called "a vital and dynamic model" of development, the Caracas government has established itself as the crucial link between the rest of Latin America, now under pressure from U.S. creditors to abandon hopes of industrial development and implement severe cutbacks, and the growing international movement for expanded trade and development. The success of Perez's effort to pass on these benefits to the rest of the continent will most likely determine whether or not war erupts in the economically collapsed Southern Cone.

The significance of the endorsement of the general parameters of Perez' policies by Fedecamaras, the powerful businessmen's federation, is as an indication of the broad alliance the president has forged behind a program of development and trade. It is also, however, an invitation to U.S. industrialists to act in their own self-interest by participating in the new world economic order.

Perez Presents Venezuela's Development Plan for 1977

The following is a translation of the New Year's speech given by Venezuelan President Carlos Andres Perez.

"The Venezuelan people have demonstrated for themselves and the world their capacity to assume direct control of their essential, basic resources, without causing international confrontations." The plan to consolidate the petroleum industry which at present consists of multiple individual companies loosely under the direction of the main mother company, Petroleos de Venezuela was presented by President Perez. The aim in the iron industry, Perez explained, is to build up Venezuela's capacity to transform all iron ore extracted in the country into steel and related products, and thus stop exports of raw iron.

"...I can assure (you) that the policy of accelerated economic development...of combining a high rate of expansion with the growing level of employment is not only possible but today is an undisputable reality."

"...The question of human resources is not only a problem of quantities of jobs and workers but is also one of a qualitative order, of levels of specialization and skills of the human resources which are incorporated into productive activities."

"We announced last December a special program of industrial apprenticeships which will convert industrial shops into classrooms for the preparation of specialized workers, of semiskilled technicians which our country

needs...We have submitted to the Congress a law which will create a fund for financing scientific research, higher education, and technical training with the intention that the private sector comply with its unavoidable duty of contributing to the preparation of Venezuelans who will incorporate themselves into work needed by these same industries which will lend their economic cooperation."

President Perez discussed agricultural development, stressing "the creation of the necessary infrastructure aimed at putting nature at the service of the Venezuelan man." The programs of agricultural developing include "irrigation, agricultural roads, rural electrification and construction of wells and reservoirs."

"My optimism is the fruit not only of the unalterable decision which I have made to rescue national agriculture so that it grows with the same vigor and in harmony with industrial development — it must be taken into consideration that while industrial development obtains results in the short and medium term, agriculture only sees its results in the medium and long term...."

"I am optimistic (as well) because we have achieved extraordinary goals, as much in the private sector as in the public sector. I am optimistic because this moral spirit is an indispensable condition for confronting new difficulties and for analyzing with a critical spirit what has been done and what needs to be done."

"I have listened with attention and studied in detail the criticisms of what are called the 'gigantic' plans of the government. Sincerely, I don't share those views. Venezuela cannot lose this moment...We either develop now or we lose the opportunity offered to us by an international and national conjuncture that will not be with us for long.

"I have noticed that it is not the projects which are criticized but their volume and cost, which seems to indicate that there is a national consensus on the direction which the country's development ought to take, although fears are expressed about our capacity of complying with the goals that we have proposed. I want to make clear that what we should construct today will cost us more than double in the future, whereas what we invest rationally now will grow in value with every passing day."

"There is no danger of a division in OPEC...The divergence over prices will be overcome. OPEC...is strongly tied to the solidarity of the Third World. Petroleum is the great instrument of negotiation for the creation of a New International Economic Order."

"It is also the definitive decision of the Organization to take the necessary measures so that the new price increases do not have an effect on the balance of payments of the developing countries that do not have oil."

"The solidarity between the developing countries will not be broken as some developed nations have tried to do with their brutal strategy. (These developed nations) do not want to understand that the the world's division between exploited nations and exploiting nations has ended. The developing nations have demonstrated that they are conscious of their destiny."

"1977 brings more favorable perspectives than those of the year that has just ended. In 1976 the Paris North-South conference was convened in an organizational framework that seemed satisfactory. Nevertheless there was no result in the commitment to push the New International

Economic Order. There was not the necessary manifestation of political will for dialogue and agreement.

"No resistance to a serious analysis is given by the argument — which in the end is only an excuse — that, in view of the delicate conjuncture of the world economy and especially of some developed countries, the conditions are not favorable for these countries to arrange with the developing countries significant agreements which would constitute the basis for the launching of a New International Economic Order. This excuse could carry forward in the coming years, if the international community does not realize that the only way to overcome these unfavorable conditions in which the world economy is submerged is precisely through a change in the rules of international economic relations.

"We understand that what was left undone in so many years of international injustice cannot be done in a few months. A transition period is required which the developing countries are ready to discuss and concede. Meanwhile the greater the stalling the longer the period of uncertainty which precedes it will be and the more painful the actual change will be. We the developing countries are united in this conviction and are ready to assume our responsibilities. We are convinced that only in this way will justice and reason prevail for the benefit of all.

"The actual indecision that feeds inflation and monetary disadjustments ought to give way to an order of new foundations which can only take place through the deliberate action of all.

"It is obvious that those who have stalled in showing this spirit have been the countries of economic power. 1977 will be a decisive stage in which these countries must demonstrate that they not only understand the situation but will act on it. The Paris conference in the coming months ought to end successfully with that which we all want, in order to save the economies of the developed countries and to give those countries which up to now have only been contributors to the well being of the great nations, the right and the possibility to develop.

The interdependence between nations demands that we follow more closely these international events. The interests of Venezuela are at stake. We will not succeed in our ardent desire to secure social justice and well being if this noble and valiant controversy, which is being waged by the developing countries to attain an international justice, is not won."

Perez concluded by addressing specific problems of Venezuela, including the high rate of malnutrition in children up to 6 years of age — over 50 per cent of this age group is malnourished. In describing the seriousness of this problem, Perez said, "The irreparable damage to health and intelligence caused by malnutrition during gestation and the first 6 years of life is scientifically known."

Businessmen Back Up CAP

The following are excerpts from the year-end statement of Fedecamaras, the national businessmen's federation of Venezuela, which appeared in the Dec. 31 issue of the Caracas daily El Universal.

The ills which international economic relations are presently suffering, (including)...the possible retention of the U.S.'s discriminatory Foreign Trade Law and the stagnation of the North-South conference...are grave problems which should bring us to make maximum effort to preserve the unity of OPEC, to diversify our exports markets, to increase public investment in development, and to mold our economic policies in an increasingly coherent way as an indivisible whole... We must improve the quality, quantity and productivity of our production to make us less dependent on petroleum... The history of OPEC provides important lessons for all raw material producing countries... It shows that negotiating power depends upon tight cooperation among producing countries... (At the same time) it is wise to accelerate projects related to the exploration of the possibilities of the Orinoco oil belt, in light of our (present) reserves and the likelihood of an increase in world demand for the coming decades...

Latin America, and Venezuela in particular, have been facing the question of what the most appropriate strategy for development is. One of the answers has been economic integration... There is no doubt that these programs of integration have resulted in a favorable impact on (the region's) development... We must continue to support and strengthen integration... For this reason, we support the efforts being made at the government level to maintain and develop not only the Andean Pact, but also ALALC, Caricom, and the Central American Common Market... In this context, the strengthening of SELA (the Latin American Economic System, proposed by former Mexican President Echeverria, Venezuelan President Perez, and Cuba — ed.) has special importance for Venezuela... (as part of) a vast policy of cooperation, which, in turn, will serve as a base to the improvement of integration itself...

Within the terms of this policy of cooperation, it is important to rejuvenate our commercial and economic ties with the United States... which, within the framework of the New World Economic Order, has special significance in the implementation of a policy of technology and investment for development. For the coming year, Venezuela has the commitment to continue developing its foreign policy and deepen its economic ties and cooperation with all the countries of the globe. For this reason, we have praised and evaluated in a constructive spirit the recent state visit of the President of the Republic (Carlos Andres Perez) to several countries.

Jamaica Will Not Devalue Currency

*This is the first of two articles
on the Jamaica economy*

When Michael Manley won his landslide victory in Jamaica last month, the pundits at *Newsweek* and the *Economist* expected a 40 per cent devaluation of the Jamaican currency and another downward slide in the island's economy to follow shortly thereafter. The Jamaican opposition leader Edward Seaga, who prides himself on his connections to the International Monetary Fund, originated reports that the devaluation was a condition for a \$130 million loan that Manley had reportedly requested to keep the country afloat.

When foreign exchange sales were suspended by the Bank of Jamaica one week after the election, the devaluation was thought to be imminent.

But two weeks later, the foreign exchange markets remain suspended, and it is clear that Manley is intent on avoiding devaluation and the sharp inflation and cut in imports that would entail.

At a meeting with the Private Sector Organization last week Manley's government made it clear that devaluation would only be a last resort and that a thorough reassessment of the economy will take place between now and the end of the current fiscal year in April.

His determination was expressed even more strongly in a speech this week in which he said devaluation was absolutely unacceptable. Manley called it inadmissible to allow precisely those social welfare and development programs which have benefited the majority of the Jamaican people to be interrupted because of the crisis. While calling for increased productivity, he presented an austerity package consisting of further cuts in luxury imports and increased taxes for upper income brackets and designed to preserve the basically sound potential of the Jamaican economy which is located in the development of its workforce.

Manley's determination to draw a bottom line on austerity is no doubt influenced by Britain's unprecedented refusal last year of an IMF austerity package. His ultimate success in revitalizing Jamaica's economy in light of the international depression which has destroyed the markets for Jamaica's primary products, will depend on establishing a link to the tremendous series of trade and development deals negotiated recently between combinations of Italy, the Arab countries and the Comecon. Financing and markets must be established for the regional industrial development of the Caribbean, including the development of Jamaica's and Guyana's bauxite. CARICOM, the regional development organization in which Jamaica is a leading member can be a key factor in this.

An important category of these recent trade deals has involved the development of aluminum processing. A month ago an Arab consortium agreed to finance a \$1.4 billion aluminum processing project in Guinea and two weeks ago a similarly valued project for aluminum refi-

ning in Yugoslavia financed by Libya alone was announced.

The strength of Manley's economic policy has always been his social welfare programs. He has increased health facilities, provided free education up to a university level, started a Cuban-style literacy program, housing construction projects, and Project Land-Lease, which has so far given 10,000 peasants good flat land, most of which was previously untilled. All of this augurs a trend toward increased employment of Jamaica's idle skilled and semi-skilled labor and a broad upgrading in the educational level and productivity of the peasantry. Manley clearly understands that this is essential to strengthening the depressed agricultural sector, which is the most serious weakness of the Jamaican economy, and to developing the skilled labor force to man processing and related industries.

With outrageous incompetence *The Economist*, which Karl Marx once called "that optimist conjuror of all things menacing the tranquil minds of the monetary community," has called for eradicating exactly that aspect of the Jamaican economy which is its strong point. Last month they asserted "It would be a genuinely creative act in Jamaican politics" for Manley to transfer the bulk of his investments in education programs to labor intensive agricultural complexes, wishfully suggesting that otherwise the Land-Lease program and the sugar growing co-ops, which increased cane production a respectable percentage this year, are likely to fail.

The real problems for Jamaica's economy — the depressed state of its sources of foreign exchange, the bauxite and sugar industries — have been exacerbated notoriously in the last year. Bad press in the United States, which resulted from the political violence which began in early 1976, caused a sharp drop in Jamaica's tourist trade, its other major source of foreign exchange. In the panic that followed wealthy Jamaicans smuggled more than \$200 million out of the country. Net foreign reserves, which in April, 1975 were \$142 million, declined into the negative. The Jamaican election, embellished with a flashy Cuba-scare, became the subject of international attention.

The victory of Prime Minister Manley's Peoples National Party has set the stage for a renewed development of the economy. Already Manley has predicted an upturn following a remarkable third quarter rise of 61 per cent in bauxite and alumina exports over the second quarter. Post-election tourism has broken out of its manufactured slump, with Christmas business up sharply over the previous period and exceeding seasonal projections which had been based on the slump. Expressions of conciliation have come from the important private sector leaders, in the interest of restructuring the economy, and from the opposition leaders, in the interest of national peace.

The second article in this series will analyze the underlying structure of the economy on which Manley's development policies are based, including the problems of the agricultural sector, and the prospects for regional development.

American Progress, 'Right to Know' At Stake In UAW Case Against New Solidarity

On April 7, 1977, Judge Lawrence Pierce of New York's Southern District Federal Court will convene trial proceedings in the case of the United Auto Workers and Leonard Woodcock vs. the National Caucus of Labor Committees, the U.S. Labor Party, Lyndon LaRouche and *Campaigner* Publications. By that time, the defendant U.S. Labor Party et al. will have incurred at least \$60,000 in legal expenses, the apparent minimum injury the UAW hopes to inflict on its most prominent political opponents.

The plaintiff UAW leadership charges the Labor Party with trademark infringement and libel. The contention of the defendants is that Leonard Woodcock, a member of David Rockefeller's Trilateral Commission, is acting for that commission and the incoming Carter Administration composed largely of Trilateral members and affiliates to destroy the Labor Party and the NCLC.

The constitutional issue posed by this UAW suit to shut down all U.S. Labor Party publications is in itself extraordinary, and without precedent in the United States' 200 years as a republic. When the fundamental differences in political program separating the court adversaries are also considered, the coming trial looms as of major international significance, with direct bearing on the world's economic and political future. Will the court uphold industrial progress or zero-growth economics as the mandate of the U.S. Constitution?

The Labor Party has, throughout its history, been the most vigorous advocate of policies of industrial and agricultural expansion and of programs designed to reassert the industrial, scientific, and technological leadership of the United States. This advocacy has included press exposure and informational campaigns against advocates of zero growth, deindustrialization and associated corporatist police-state forms of society, Leonard Woodcock prominent among them. The UAW's legal attack on the Labor Party therefore goes to the heart of the First Amendment: the public's "right to know" as a fundamental condition for the maintenance and development of human progress.

The suit itself was filed in November 1974 by the UAW, which contends that the editors and publishers of *New Solidarity*, the newspaper of the U.S. Labor Party, are guilty of trademark infringement and unfair competition against the United Auto Workers' in-house publication, *UAW Solidarity*. That the UAW leadership obtained a trademark on the word "Solidarity" only after filing a

suit against their most vociferous political opponents is the first of several glaring anomalies surrounding the UAW action. Not only does the UAW ask the extraordinary sum of \$35,000,000 in damages, but requests that the court compel the defendants to "deliver up for destruction by plaintiff UAW all past issues of *New Solidarity* and all promotional material, documents, etc. which contain the name *New Solidarity*."

On the face of the matter, the UAW leaders have proceeded as a large corporation against a smaller competitor, intending not only to bankrupt its opponent, but to eliminate every one of the Labor Party's varied political and economic publications down to the last single copy.

The UAW complaint itself has revealed the political motivation behind the case. The complaint charges the defendant organizations with libeling and defaming UAW President Woodcock and other union officials, principally by the use of the word "fascist" to describe their policies and programs.

The defendants unsuccessfully filed a motion for summary judgment and dismissal in March 1975, arguing that the UAW had known of the existence of their *New Solidarity* newspaper since 1971 and were therefore guilty of extraordinary and unjustifiable delay. The USLP et al. also argued that "Solidarity" had been frequently used in the title of many other publications in the U.S., and that the two papers bore no similarity in lay-out, format, content or demographic distribution. Leonard Woodcock and other UAW leaders are "public figures," the defendants contended, and their description of Woodcock's policies and programs were demonstrably factual, in the use of the term "fascist" in particular.

The UAW's part in the broader, Trilateral Commission campaign against the *New Solidarity* publishers was identified in separate counterclaims filed by the defendants. Cases of USLP members, supporters and sympathizers being fired, fined, harassed, threatened, subjected to behavior modification treatments, or assaulted by UAW officials — UAW officials have been convicted 11 times in such assaults — were documented in the defendants' brief.

The UAW, which has retained the firm of Cowan, Liebowitz and Latman, specialists in trademark law, has submitted discovery motions arguing that the *New Solidarity* publication has damaged their relations with the government and the Congress, and crippled their

ability to succeed in their legislative efforts.

The Labor Party does not deny that its purpose is to prevent the passage of all "zero-growth" legislation, including that supported or authored by the UAW. The party contends that the implied connection between the freedom of the press and the successful development of industry is the real issue of the case. For a precedent, one must return to the famous 1735 case of John Peter Zenger, according to the most recent treatment accorded the UAW case in the defendants' *New Solidarity* (Vol. VII, No. 85, Jan. 4, 1977). Zenger was acquitted of libel involving the colonial Governor of New York, because his damaging descriptions and allegations against the governor's activities were found to be true, writes Nancy Spannaus, the U.S. Labor Party's Director of Publications and *New Solidarity's* Editor-In-Chief. Moreover, she argues, the corruptions laid at the door of the colonial governor involved steps consistent with the prevailing "monetarist" policy of the British monarchy to impose "no growth" policies on the developing trade and manufacture of the American colonies.

"Shall Leonard Woodcock be granted the privileges which even the King's representative could not use to suppress organizing against his arbitrary actions and economic looting more than 200 years ago?" Spannaus asks.

The USLP asserts it is no coincidence that one of Leonard Woodcock's principal international associates, Willy Brandt, Chairman of the West German Social Democratic Party, has also undertaken legal actions against *New Solidarity's* sister publication in West Germany, *Neue Solidarität*. Using a statute instituted under Adolf Hitler, Brandt has carried out several successful prosecutions of the *Neue Solidarität* editors for damaging his career of association with the CIA, Rockefeller family and Trilateral Commission by "the spreading of facts" — the clause that the Zenger case threw off the statute books of colonial America.

Leonard Woodcock is well known as an advocate of

policies of make-work and forced work employment intentionally unrelated to the industrial and agricultural production needs of the U.S. economy and people. The Labor Party has characterized these as "slave labor" programs, "modeled" on those of Adolf Hitler. Woodcock is consistent in advocating industrial contraction in the American midwest, with one "exception that proves the rule:" he is in favor of converting idle auto facilities to tank production. This is another example of Third Reich precedents emphasized by the Labor Party, which has published detailed programs for converting the same auto facilities to tractor production in the journals Woodcock seeks to close down. Woodcock has firmly supported the Trilateral Commission's program for "reduction of population" in the developing sector nations and an early military confrontation with the USSR, which is inalterably opposed to that policy because of the broad extension of NATO and related U.S. military-policing power it would necessarily require. Woodcock himself is part of policymaking circles who have publicly characterized their program, in *Challenge* magazine, as "fascism with a human face."

The USLP contends that these policies are virtually identical with the commitments of the incoming Carter Administration. Woodcock was one of Carter's earliest public backers among trade unionists and supported his candidacy through such dubious devices as "Operation Big Vote," widely believed to have been a vehicle for vote fraud. After Nov. 2, Woodcock's name was repeatedly and prominently mentioned as a candidate for a post in the Carter Administration. These developments have prompted the Labor Party to charge that Woodcock's effort to destroy it on the pretext of trademark minutiae is an action taken in "surrogate" for the Carter Administration itself, which otherwise will benefit most by the elimination of its most respected pro-development opponents, but is constitutionally forbidden (re: Zenger) to undertake action to the same ends in the name of government.

Behind The Bylines

Under The Gun

The *Washington Post*, the newspaper that led the Watergate pack which brought down Richard Nixon, may be in for a Watergating itself. Inside sources are hinting that *Post* owner Katherine Graham has a few skeletons in her editorial closet left over from the bloody 1973 coup against the Allende government in Chile, in which both Henry Kissinger and ITT have been heavily implicated. According to the sources, "anonymous leaks" exposing the *Post's* part in that grisly affair are now on the agenda.

If the *Post* was instrumental in the Chile coup, it would shock no one knowledgeable about the paper's family history. Katie Graham is the daughter of *Post* founder Eugene Meyer, intimately connected to the Rothschild fortunes through the New York investment banking house Lazard Freres. During the 19th century, the Rothschilds invented the techniques of anarchist terrorism, which were used to oust Allende and Nixon.

Our sources report, however, that it is not yesterday's crimes which have put the *Post* in Jeopardy. Other Wall Streeters, particularly those at 1 Chase Manhattan Plaza, it is said, are not very happy about how the *Post* has broken ranks with *The New York Times* recently to express alarm over the Carter Cabinet's nuclear eyeballing of the Soviet Union. A recent *Post* Sunday magazine section featured an exposé of the Cabinet's numerous connections to David Rockefeller's Trilateral Commission; its author wound up suggesting that, given Kissinger's role in the Ford Administration, the "transition" from Ford to Carter might well be seen as the shift "from Nelson to David." This week, the *Post* has featured a whole series of articles keyed to expose the war issue. (See *Military Strategy*)

If the *Post* publishes more such critical coverage of the Carter-Rockefeller crowd, look for the Chile skeletons to come out of the closet.

The *Washington Star*, the *Post's* chief competitor and the paper some credit with "keeping the *Post* honest" on the explosive 1976 vote fraud issue, has just lost round one in its fight for its life.

Since the *Star* was taken over by Texan independent millionaire banker Joe Allbritton in 1974, it has been battling the Federal Communications Commission (FCC) to retain ownership of its three Washington, D.C. radio and TV stations, whose profits maintain the financially weak paper. In 1974 and 1975, under Allbritton, the *Star* published devastating exposés of

the Rockefeller international terror and intelligence operations. Coincident with Allbritton's takeover of the *Star* and its media company Washington Star Communications, Inc., the FCC came up with a new ruling calling for the break-up of "local news media monopolies" to go into effect only when such news monopolies came under new ownership.

The FCC ruling was never taken very seriously, even by the majority of the FCC, since it is common practice in the industry to establish such local monopoly arrangements. The FCC allowed at least a year to lapse in hearings and other formalities. But soon after the media's News Election Service declared Carter the next President, the ABC radio network (some call it a monopoly) won the right to buy Allbritton's two Washington, D.C. radio stations, WMAL-AM and -FM, as new pressures were brought to bear to re-open the divestiture suit "of all but one of (the *Star's*) media properties in the Washington market." Allbritton now faces the "option" of selling either the *Washington Star* itself or the one remaining TV station in his corporation which keeps the *Star* solvent.

'New Faces' of 1977

The *New York Post* published an unconfirmed report this week that none other than Henry Kissinger will be named to head the CBS broadcasting empire when aging chief exec William Paley steps down this year. Former OSS psywarrior Paley "thinks Kissinger's a genius" one CBS honcho told the *Post*. A somewhat less flattering view of Dr. K's qualifications was offered by another media insider, who identified the job switch as "a straight cost-cutting move" by the incoming Carter Administration. "With Henry in charge at CBS, the State Department won't have to make all those long-distance phone calls to Cronkite's studio," the source explained.

Rev. Sun Myung Moon and his Unification Church International have presented New York City with a daily newspaper called *News World*. The Moonies, whose links to international intelligence agencies have been widely reported in the U.S. press, and who were recently criticized by a spectrum of religious leaders for their "anti-Christian, anti-Semitic, anti-democratic" teachings, are representing their newest venture as an act of charity to give "independent voices" a chance to be heard. Said *News World* business manager Tom Miner in an interview with *Editor and Publisher* last month, "We are looking for members of the newspaper who will not be connected in any way with the church."

The Moonies, or some of their "unconnections," have clearly sunk millions into *News World*, which has already purchased costly subscriptions to United Press International's "A" and "B" wires, to its sports service, and to its region and picture wires. In addition, *News World* has taken out high-priced subs to Reuters and Agence France Presse international news wires. Incorporated just last October under the company News World Communications, Inc., *News World* already employs its own editorial department of 130 full-time paid workers, a business staff of 70, a national "stringers" crew of 100, its own three-man Washington, D.C. bureau, and 100 "foreign correspondents."

News World rolled out its first 24-page, 25 cent daily edition, Dec. 31, with a run of 150,000 distributed to Manhattan outlets with plans for expansion to New York's boros later. Spot checks of *News World's* newsstand vendors discovered New Yorkers were greeting the product with the same lack of enthusiasm they accord to the Moonies' panhandlers. *News World* advertisers were reported already cancelling out.

So far *News World's* Miner has not commented on his

newspaper's sources of funding. We advise him to check his bank accounts; it could be a short, cold winter.

A newcomer to the so-called left press fostered by the networks of the Institute for Policy Studies is a weekly called *These Times*, now in its seventh number. Included among its backers and writers are such Institute stalwarts as Jeremy Rifkin and Paul Jacobs; United Auto Worker's vice-president Paul Schrade; MIT's Rand Corp. radical, linguistics professor Noam Chomsky; and zero-growth spokesman Barry Commoner, among others. So far *These Times* has put forward a laundry list of IPS demands: for legalization of drug useage and prostitution, for Humphrey-Hawkins 'minimum wage' jobs legislation, for federal guarantees of municipal debt service payments to the banks. *These Times* kicked off its career by circulating the same litany of slanders against the U.S. Labor Party recently published by IPS's Pacifica News Service and William F. Buckley's *National Review*.

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