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# **EXECUTIVE INTELLIGENCE REVIEW**

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**EXECUTIVE INTELLIGENCE REVIEW**

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# EXECUTIVE INTELLIGENCE REVIEW

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## IN THIS WEEK'S ISSUE

America faces a **British invasion**...in the form of a takeover of U.S. finances by the City of London...even as the City comes under the most intense fire yet for its worldwide "**debt, not development**" machinations...In **INTERNATIONAL**, both sides of the world picture...First, a report on the current debate over U.S. bank reorganization...that **pushes aside the technical jargon** to reveal the **most important story** of the week...a threat to the U.S. economy potentially equivalent to a declaration of war...Second, the latest on the preparations for the July summit in Bonn...which European leaders are organizing as a **rallying point** for an aggressive international **détente and development drive**...that is increasingly taking the form of an open West German-French combination **against British debt policy**...as you'll read in the included selections from the British and French press...and statements from international leaders...**Featured** in **INTERNATIONAL**...the **highlights** of the Soviet Union's 5,000-word **reply to President Carter's "confrontation or cooperation"** Annapolis speech...calling on Carter to **stop the damage to détente** before it's too late...

\* \* \*

The grim alternative to the "**Grand Design**" strategy of the Bonn Summit is a "**Crash of '79**" scenario...centered in the **Persian Gulf**, leading to an oil embargo and, possibly, nuclear war...In **THIRD WORLD** this issue, we present a survey of the dangers to Persian Gulf security...starting with plans by British-linked Israeli intelligence circles for an Israeli oil shut-off...by **bombing Mideast oil fields**...Britain's answer to the **OPEC decision** to hold oil prices steady and stick with the U.S. dollar...Plus **China's contribution** to tensions in the region...the Israeli strategy for **Balkanization**...and a new insight into **who runs the Shi'ite religious cultists** that are being thrown against the Shah of Iran's industrialization plans...

How to **stop** the "Crash of '79"?...The answer is given in this week's **SPECIAL REPORT**...where we present a major policy proposal from the head of the U.S. Labor Party, **Lyndon H. LaRouche, Jr.**...for a "**nonpartisan action program**" to stop the present depression and create the conditions for **permanent economic boom**...LaRouche lays out a program for **encouraging capital** for productive growth, **while penalizing specula-**

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tion...cutting wasteful bureaucracy, while expanding services...a program that subsumes tax policy, labor policy, business policy in a conception of national interest....a blueprint for building a **winning political combination** in the United States for peace and prosperity...

\* \* \*

The political formation LaRouche is talking about...what he's termed the "**counterpole**"...is previewed in two other stories this issue...In **U.S. REPORT**, an interview from the United Steel Workers of America magazine with two steel unionists who've just visited Japan...and report that the American System of **high technology and capital investment** is what's responsible for Japanese steel's success...**not cheap labor**...and call for **the U.S. to follow suit**...with accompanying backup on what this shows about the U.S. labor movement...and about Japanese industry...Then in **ECONOMICS**, a special report on the U.S. Labor Party's recent conference on "**Rebuilding New York City to Expand U.S. Trade**"...that brought together area government officials, businessmen, scientists, and students to discuss the technical, financial, and political dimensions of **organizing for a**

**growth program**...with highlights from the speeches and exchanges...

\* \* \*

Assassinations, stealing secrets, destabilizations...are the CIA's **covert operations** by their very nature morally intolerable...or a necessary evil to be tolerated for **raisons d'état?**...Lyndon LaRouche has a **very different answer**...in an open letter to the editor of the magazine **Foreign Affairs**...a convincing call to reorganize U.S. intelligence services...that appears in **COUNTERINTELLIGENCE**...

\* \* \*

**Also in this issue:** in **ECONOMIC SURVEY**, a study of the effects that the International Monetary Fund's program of **austerity and more austerity** is having on **Italy's economic future**...and in **EUROPE**, a report on the **split in Britain's top policymaking circles**...

**HAPPY INDEPENDENCE DAY!**

EIR will not be published next week due to the 4th of July holiday. We will resume publication with Vol. V, no. 26 on July 11.

INTER-  
NATIONAL

SPECIAL  
REPORT

U.S.  
REPORT

ECONOMICS

ECONOMIC  
SURVEY

COUNTER  
INTELLIGENCE

EUROPE

THIRD  
WORLD

# Miller Plans British Reorganization OF U.S. Banking System

*Will U.S. dollar be used for or against 'Grand Design'?*

Federal Reserve Chairman G. W. Miller, Bank of England Governor Gordon Richardson, cooperating U.S. regulatory authorities, Congressmen, and the major City of London banks are rapidly advancing legislation in Washington to reorganize and deregulate the U.S. banking system along British lines to the extent of "bringing the Eurodollar market back home," as one bank lobbyist noted June 20. Beginning with Senator Thomas McIntyre's (D-NH) June 21 Senate Banking Committee Subcommittee on Financial Institutions hearings on the International Banking Act of 1978, Miller and his collaborators have opened a debate on, first, a total "reassessment," in the words of Controller of the Currency John Heimann, of all U.S. banking law, and, second, "putting out the welcome mat," as Fed Governor Henry Wallich put it, for the ongoing invasion of British bank takeovers in the U.S. (see "Senate Hearings," Economics Section).

The Miller-Richardson objective is at the core *political* — however significant the financial and economic implications of such a program. If U.S. banking soundness can be undermined by the proliferation of unregulated interstate banking, wiping out thousands of regional banks on which local industry depends, and by the weakening of Federal Reserve regulation and the ultimate effective removal of reserve requirements (as in the Euromarkets), American banks' assets and structure generally will fall into a vicious circle of unsoundness that will dwarf the notorious Euromarket LDC loan situation, where the banks are locked into ever more rollovers of unsound debt. They will thus be vulnerable not merely to literal financial takeover by the British banks, who have already purchased U.S. banks worth some \$20 billion in assets this year and who plan to purchase dozens more. U.S. banking community leaders, U.S. financial officials, and the entire economic muscle of the world's industrial giant would itself in thereby adopting wholesale *British thinking* be totally manipulable by the threadbare but clever gamemasters of the City of London, who would thus achieve a 30-year strategic objective.

### *At Stake in Financial Battle*

What is at stake in a fight over the world's financial surplus is the following: Will the U.S. join the Grand Design (see accompanying article), based on the May 6 Bonn-Moscow economic accords, for world industrial

development, or will London, judoing U.S. financial muscle, manage to torpedo those European-led initiatives and retain theoretical control of world banking?

If the latter, foolish U.S. bankers will get far more, not less, regulation, for ultimately Miller and Richardson plan a world IMF receivership. As documented in last week's *EIR*, Richardson, Miller, and the London *Economist* warned publicly and simultaneously during the June 7-13 period that British banks are soliciting dollar deposits in the U.S. as a cushion in expectation that a new Herstatt crisis, like that which followed the 1974 collapse of the West German Herstatt Bank, will trigger a Euromarket and U.S. banking panic. (See "Crisis in Eurodollar Market, IMF Pushed as World Policeman," *Executive Intelligence Review*, Vol. V, no. 24.) Richardson openly concluded that in such a case the International Monetary Fund (IMF) must be brought in for "surveillance. . . of the general economic and financial policies. . . of the nations of the world."

Miller ally Treasury Secretary W. M. Blumenthal laid out the same plan at the May 24 Mexico City International Monetary Conference — emphatically including the United States. At a mid-April IMF Interim Committee meeting Fed head Miller issued a call for tightening Euromarket controls, the first step toward an international credit crunch and monetary panic. At the same meeting, Blumenthal proposed expansion of IMF "surveillance" to include IMF teams to plan "general economic and financial policy" of member nations, in short, the London bankers' plan of action for controlling a provoked global financial crisis to their own advantage. (See "Eyewitness Report: Blumenthal, Kissinger Demand IMF Imperialism at Mexico City Conference," *Executive Intelligence Review*, Vol. V, no. 20.)

West German central bank and private banking officials have reacted with horror to the Miller Euromarket proposal. Commented one German source: "Miller's plan would mean destroying the recycling of petrodollars as a system, and also the refinancing operations of the banks. All this would be broken up, and lending to the Third World blocked as a result."

An emergency policy statement released from U.S. Labor Party headquarters June 21 called upon Congress for immediate action to block the Miller-London gameplan. The statement proposed that Congress swiftly

adopt powers to impose a one-year moratorium on British takeovers of American banks. (See "Economics" for excerpted text.)

#### *War Over the Dollar Surplus*

Once having mastered political control in the U.S., the British would be in a position to halt the Grand Design formulated by West German Chancellor Helmut Schmidt and Soviet President Brezhnev, the success of which hangs on the willingness and ability of Secretary of State Vance and allied U.S. industrialists to bring the American technological machine into leadership of a global export drive.

Miller and Richardson pretend to offer U.S. bankers such as the gullible Chairman Walter Wriston of Citicorp or Chairman David Rockefeller of Chase Manhattan a choice. They can support—as they now do—the quick-profits free-for-all deregulation of U.S. banking, on the grounds of Controller Heimann that it will bring a capital inflow into the U.S., a stock market rise, cheap money, and a housing and consumer credit boom. Not only does this evade the basic world financial problem of how to lay a sound basis for the \$600 billion world dollar overhang by channeling those dollars into social surplus-creating industrialization programs that will make the \$300 billion in illiquid Third World debt again payable. It also creates that very same illiquid situation *in the U.S. economy*, with a bubble of loans on the same speculative basis that made the Eurodollar market bad banking in the first place. For none of the Miller capital inflow will go to technological investment.

But what the British fear is that support will come from U.S. banking and government for the other choice on the table — the fabulous long-term profits of the "Financial Grand Design" aspect of the May 1978 Schmidt-Brezhnev accords. A long list of U.S. corporations, from Occidental Oil to PepsiCo, who find that Citibank and Chase are up to their John Heimann-imposed lending limits on such export finance, are already borrowing heavily in continental Europe with European government guarantees to finance East-West trade — and are in on the planning of using an estimated \$150 billion of world reserves to finance high-technology development projects (see article below in "International Report").

#### *The British Bank Takeovers*

Britain's U.S. acquisitions are not intended as part of a plan to buy out each and every available U.S. commercial and savings bank — an impossibility for the British. Rather, they have been targeted to obtain operating command positions from which to rig the rules and credit flows of the U.S. markets.

To gain these command positions, the British have exchanged less than \$1 billion in rapidly depreciating pounds sterling for U.S. bank stock representing \$20 billion in U.S. dollar assets. Over the past three months, the London-controlled Hong Kong Shanghai Bank purchased Marine Midland Bank, with \$12.1 billion in depository assets; the Standard Chartered Bank purchased Union Bancorp with \$4.7 billion in assets; and

the National Westminster Bank purchased the National Bank of North America with \$3.8 billion in assets.

The British are far from finished. Controller of the Currency John Heimann predicts that six additional major U.S. banks are takeover targets within the next few months. One knowledgeable source placed the figure closer to 20.

But the Federal Reserve Board, charged with oversight of the takeovers, remains unperturbed. "What's wrong with the British coming to the U.S.?" a senior Midwestern Federal Reserve Bank official asked June 20. "This broadens the base of the U.S. banking system," he boasted, "adding depth and breadth to U.S. lending power."

#### *The Re-Organization Plan*

While London's base-building in the banking system continues, the British remain aware that the key to their plans resides in their ability to create an uncontrolled speculative climate in the U.S. The centerpiece is London's drive to repeal regulative U.S. banking laws. These include legislation that prevents U.S. banks from doing interstate banking and acquiring other large U.S. banks (the McFadden Act), holding minimum reserve requirements (Regulation R), and others. The removal of these regulatory strictures will generate a banking war wiping out up to 13,000 of the 14,000 U.S. banks, according to a senior officer of Barclay's Bank.

As the first step to wipe these laws off the books, Federal Reserve Board Governor Philip Jackson proposed that foreign bank holding companies be allowed to operate across state lines, clearing the way for the elimination of domestic interstate banking restrictions. Jackson's proposals are embodied in the debate on the International Banking Act of 1978, which passed the House of Representatives in April, and on which the Senate Banking Subcommittee held hearings June 21. The bill, sponsored by liberal Rep. St. Germaine (D-RI) and Sen. McIntyre (D-NH), is being deceitfully hailed by Miller as providing "greater regulation of foreign banking," but in fact rubber stamps existing nonregulation of foreign banks and in so doing has provided a debating topic for the deregulation, rather, of U.S. domestic banking (see detailed report on the hearings in "Economics").

Plans are even on the books for what a Wall Street bank analyst June 21 referred to as "London in New York." On June 21 New York Governor Hugh Carey signed into law a bill eliminating reserve requirements for New York banks making international loans — a step that will create the same conditions of uncontrolled lending that now exist on the uncontrolled Eurodollar market. This bill, called the "Free Port" or "Free Banking Zone" bill, has been coupled to another piece of legislation also signed by Carey, to facilitate moving large branch offices of Lloyd's of London and other British insurance companies to New York.

According to one banker, Fed Chairman Miller may hold up Federal Reserve approval of the New York City "Free Port" until the mechanism exists for setting up 10 to 15 other "Free Ports" in other parts of the country (see "Economics" section).

### U.S. Debate Grows

The debate in U.S. financial policy circles over the Miller-Richardson program is growing daily. Chase Manhattan and Citicorp (see interviews in "Economics") at this writing support the entire deregulation scenario on the ground of the fast buck, but one suspects they narrowly focus on the interstate banking plan out of fear to look over their shoulders at the IMF and what it could do to the U.S. under the "crisis management" piloted in New York City's notorious Municipal Assistance Corporation. Barclay's Bank International (USA) Chairman Louis Morel, testifying for the Barclay's run Institute of Foreign Bankers of which he is also chairman, told the McIntyre Committee hearings June 21 that most major U.S. commercial banks would rather see full U.S. deregulation than the "old-fashioned" imposition of regulations on foreign banks.

At the Federal Reserve itself debate is furious. While Miller, Henry Wallich (see his *New York Times* interview in "Economics"), and Philip Jackson are pushing deregulation hard, they have to contend with Nixon-era U.S. patriots like Governor Phillip Coldwell, the ex-chief of the Dallas Fed, who recently attacked the New York "Free Zone" plan as "Eurodollar market-style" bad monetary policy. That Miller is still giving lip-service to the Fed's traditional responsibility to ask regulation is a testimony to the strength of such regional voices at the Fed.

At the June 21 Senate hearings on the International Banking Act (IBA) of 1978 the British came under attack from Senator Stevenson and the Bankers Association for Foreign Trade (BAFT), representing a national consti-

tuency of U.S. banks and industrialists who are well briefed on Britain's plans.

Stevenson and BAFT have introduced a Senate amendment to the Act which would (1) ban (as the Nixon Fed Act did) interstate domestic activities of foreign banks; (2) allow foreign banks to bring in Eurodollars only if they are to be used to *finance U.S. exports*; and (3) allow some interstate liberalization for U.S. banks, again, *only* if they are expanding to finance exports.

"We have no problems with the foreign banks like the Germans coming in for productive purposes," said a Stevenson staffer, "but that's not what the British banks want. They are trying to ameliorate their own foreign debt problems by moving into the U.S." They want to bring the Eurodollar market here and "we don't want this to happen."

Someone "high in the Administration," according to the *New York Times* accounts of the hearings, is in back of this, "and it sure isn't the Treasury — it must be the White House," commented Washington sources yesterday. "The protection of American deposits and the safety and soundness of the nation's banking system is a cornerstone of our economy," said the Administration official cited in the *Times*, and the question is, "to what extent should foreign banks be able, through their American extensions, to use the discount window of the Federal Reserve, taking out low-cost loans that might possibly be used to rescue a troubled parent bank (i.e., British headquarters — ed.) that has encountered difficulties in the Eurodollar market?"

— Kathy Burdman

## W. Europeans, Japanese, And Saudis Ready 'Financial Grand Design'

With less than a month to go before the mid-July economic summit of advanced capitalist industrial countries in Bonn, the governments of several of the key participating nations have adopted a political strategy for using the huge surplus of dollar reserves they collectively hold to launch a global industrial development policy. The leaders of this closely coordinated deployment are the governments of West Germany, France, Italy and Japan, working hand-in-glove with a partner which will not be present at the summit but which, by latest reports, the West Germans will "represent" — Saudi Arabia.

The other key interlocutor in what the European press has called the "Grand Design" is the Soviet Union and its Comecon economic bloc in Eastern Europe. The Soviets at an earlier Bonn summit — the one held between Chancellor Schmidt and USSR President Brezhnev in May — helped to open the door for the "Grand Design"

process by approving a massive 25-year package of cooperation and trade accords with the Federal Republic of Germany.

Over the third week in June, the "Grand Design" forces in West Europe and Japan and their Arab friends have been criss-crossing Europe to work out the appropriate monetary and credit mechanisms for the implementation of their high-technology solution to the depression for presentation at the July 16-17 summit. Those preparations come in diametric opposition to the simultaneously developing schemes for using the same huge dollar surplus — an estimated \$150 billion worldwide — to maintain the City of London's and its allies' political hold over the world economy. The British-centered faction now intends to deliberately collapse the Eurodollar market as the means for grabbing control of the United States economy and, with it, control over U.S. policymaking (see *Miller, IMF* above in "International

Report,") as a desperate measure to prevent the U.S. government from giving its crucial support to the global development package.

What is impelling the U.S.'s OECD partners and Arabs to their economic policies is not merely the realization that the world is on the brink of a depression. Their most urgent concern arises from the connection between economic breakdown and the dangers of imminent thermonuclear war — particularly threatened in the Middle East. For this reason, they are deploying every means at their disposal in the remaining 20-odd days before the summit to create the conditions in which U.S. President Jimmy Carter will abruptly shift U.S. foreign policy and align it against the International Monetary Fund-World Bank policies of economic genocide which otherwise directly contradict the human rights goals to which the President is morally committed.

#### *Financing The Grand Design*

Already on tap as the central topic of the Bonn Summit is a plan to mobilize the world dollar surplus to put hard cash behind East-West and North-South industrial development. The West German, Japanese, French and Saudi governments are planning to concentrate in Frankfurt and Luxembourg the dollar resources of their governments and private banks, and offer these reserves (with full government guarantees) as export finance to multinational corporations for high-technology projects in the socialist bloc, Africa, and the rest of the Third World.

On June 21, the authoritative West German financial daily *Handelsblatt* reported that the Japanese banks in West Germany plan to move their over \$30 billion in private Eurodollar deposits out of London and into Frankfurt and Luxembourg, explicitly to take advantage of German government and industrial channels, to finance exports to the East bloc and Middle East for both German and Japanese firms. The same day, the *Japanese Economic Journal*, Japan's "*Wall Street Journal*," reported that the Mitsubishi Research Institute, headed by former Chairman of Mitsubishi Bank S. Nakajima, has proposed a 20-year "Grand Design program" under which the U.S., Japan, and West Germany would each contribute \$5 billion, and the OPEC nations \$20 billion, or a total of \$35 billion *per year* for "agricultural and industrial projects in the developing nations."

As the proposal to move Japanese, German, Saudi, and French dollar deposits *out of London and Singapore* implies, this is a direct attack on British counter plans for a Eurodollar market in the U.S. Alain Vernay, writing in the June 2 *Le Figaro*, noted that West German Chancellor Schmidt and French President Giscard intend at the summit to build a stable, government-coordinated system "to ensure monetary stability in Europe." around these development plans — in contrast to the current City of London-dominated system in which "England draws a good part of its earnings from disorderly currency fluctuation."

The British were not long in responding. Prime Minister James Callaghan of Britain issued a sudden announcement on June 21 that he would make an

emergency trip to the United States to "rescue the Bonn summit." As the country orchestrating the international faction working toward a collapse of the dollar and the industrial dismantling of Europe and the U.S., the panicky British reaction was predictable.

As correctly stated by Alain Vernay of the French *Le Figaro*, however, Callaghan's "dreams of reestablishing a special relationship with the United States" are not receiving encouragement stateside, nor are there "any obstacles which could resist a full accord between West Germany and France." Vernay points out, too that a Franco-German axis is now very much a reality.

#### *West Europeans Set Strategy*

After meetings held in Bonn over the past weekend with Italian Prime Minister Giulio Andreotti, West German Chancellor Helmut Schmidt stated his economic program in the clearest terms to date. Schmidt announced his intention to "restructure West German industry thoroughly from a standpoint of ensuring rapid technological progress through intensive scientific research." Premier Andreotti then added that this policy would be the basis for "a coordinated activity to contribute to a better politico-economic development, first at the European level and then at the European-Japanese-American level."

From the French side, President Giscard d'Estaing made an unscheduled trip to Bonn to be on hand for joint meetings with Schmidt and Saudi Prince Fahd, who arrived two days previously. Fahd's visit, which will last a full week, is a follow-up deployment to Saudi King Khaled's trip to Paris late last month. After meetings with Giscard, Khaled offered Saudi petrodollar financing for French and other European industrial projects.

Fahd arrived in Bonn with a huge delegation, and early reports from a West German news source indicate that Chancellor Schmidt is extremely pleased with the progress of the talks. It is further reported that West Germany will de facto represent Saudi "interests" at the upcoming Bonn meet.

#### *Industrial Projects Planned*

The French and West German allies plan to present Britain with a *fait accompli* at the OECD summit in July; the kernel of what Italian Premier Andreotti reported would be a development package meant to draw in the Japanese and the United States. Meanwhile, according to high-level Japanese sources, the Japanese will be going to the summit with one proposal: the undertaking of a world crash program for fusion energy development.

Schmidt and Giscard are working closely together in a crucial scheme to clean out British destabilization capabilities throughout the Mediterranean based on replacing destabilization with economic development programs. Last week Cypriot Prime Minister Kyprianou held meetings with Giscard in Paris, after which he laid out the following proposal: to counterpose what he termed "British crimes" in Cyprus, Kyprianou called for the creation of a political oversight committee chaired by France and to include Greece, Turkey and Cyprus. The committee would control the disarming of the London-funded armed fascist networks which have

made Cyprus a base for terrorist destabilization of the entire region bordering on the Mediterranean.

Working hand in hand with Giscard, the West Germans, according to the *Frankfurter Allgemeine Zeitung*, have proposed to Turkish and Greek Premiers Ecevit and Karamanlis, respectively, that they cooperate in settling their differences in exchange for sizable economic development assistance. The *Financial Times* announced on June 20 that Greece had organized a conference to include top bankers and diplomats from every country in the Arab world for their consideration in funding 70 proposed development projects — a move which signals again the close coordination between Europe and leading Arabs in the Grand Design.

This was announced while West German Foreign Ministry state secretary Hermes was away on an extended visit to Greece. Ecevit meantime is in Moscow discussing economic cooperation in what the *Handelsblatt* calls "a boost for the already considerable" size of Soviet-Turkish cooperation.

#### *Reflation Nixed*

In a taste of things to come, the French and West Germans at the Brussels Finance Ministers meeting last week killed any hope of British Chancellor of the Exchequer Denis Healey to force adoption of even a mild reflation program. Instead, the Brussels meeting agreed to double the funding for the European Investment Bank, money which *Le Figaro* hints has typically been used to finance European nuclear programs and such projects as the improvement of the port of Marseilles.

## European Press Reports Momentum Toward Grand Design

*During his press conference on June 14, French President Giscard d'Estaing described the purpose of his upcoming trip to Spain in response to a journalist from the Madrid newspaper Ya.*

This trip will give us the opportunity to examine in depth the ties between democratic Spain and France and to see how, in the face of the great tasks which we are speaking about here, we can tighten our cooperation and envision common actions, for example towards the Third World or Latin America.

*The importance of joint European-Arab Mediterranean development efforts*  
*tical problems in the region was made clear on June 13 by the President of the Cyprus Republic, Spyros Kyprianou, at a press conference in Paris. Kyprianou's remarks were reported in the French daily Le Monde of June 15.*

Kyprianou expressed "his desire to see the creation of a Committee, led by France, to assist the United Nations

In Italy, the general secretary of the Communist Party (PCI), Enrico Berlinguer, delivered a speech in the city of Trieste right on the Yugoslav border giving his approval for a program to turn the city and the surrounding region into a showcase for scientific research. Making public for the first time the existence of a project already approved by the Italian Parliament, Berlinguer said that the PCI had agreed to the Trieste Research Area Bill. (For Berlinguer's remarks, see below.)

Across the Mediterranean, in Algeria, the first phase of the Trans-Sahel highway opened this week. When fully completed, the new highway will join the developed sea-bordering region of the country with the poverty-stricken inland territory, providing some of the prerequisite infrastructure for full national development. The highway will also provide Mali and Niger with a convenient access to the Mediterranean and from there to the ports of Europe and European trade (see below).

In addition, the Saudis have chosen the moment of Fahd's trip to Bonn to give the final go-ahead for the construction of an important 750-mile long oil pipeline which will cut across the entire Arab peninsula to link Persian Gulf oil wells with the Red Sea. At the pipeline's proposed terminal, Yanbu on the Red Sea, the Saudis plan to construct a massive refining and petrochemical complex. Not only will the pipeline provide 1.6 million barrels of crude per day for export primarily to Europe, but the new Yanbu complex will create significant infrastructural links with the Sudan on the other side of the Red Sea. The basic construction work will be done by Italy's national oil conglomerate ENI.

General Secretary in the search for a solution to the problems of the island...." Kyprianou indicated that this committee could be the body in charge of controlling the police force, made up of Greek or Turkish Cypriots, in proportion to the importance of their population, which he has proposed to set up. . . . The Cypriot leader, who met French President Giscard d'Estaing declared that the 'relations between France and Cyprus are excellent.'

*What follows is an Executive Intelligence Review synopsis of European press reports on the June 17 meeting between West German Chancellor Helmut Schmidt and Italian Prime Minister Giulio Andreotti:*

According to a variety of press sources, Schmidt and Andreotti held extensive discussions on the 25-year economic treaty signed in May between West Germany and the Soviet Union. In addition, Schmidt proposed the formation of an area of monetary stability, including the dollar, — a "transoceanic snake." It was furthermore agreed that West German industrialists will hold a September meeting devoted to the organization of

development financing for the depressed Mezzogiorno region of Italy.

*The following are excerpts from a speech delivered in Trieste by Enrico Berlinguer, General Secretary of the Italian Communist Party, on June 18:*

The city of Trieste must play a new and dynamic industrial role. . . . This will be a grand productive project, utilizing the most advanced accomplishments of technology and science. . . . The realization of this project is of great national interest. . . . The Communists agree on the necessity of utilizing Trieste's advantageous location in order to get in touch with the other European Community countries, with Yugoslavia, Austria, the Comecon countries and the developing countries overseas.

*On June 19 the French daily Le Matin provided the following report on the opening of the Trans-Sahel highway in Algeria, a project that will join the poverty stricken African inland with the developed shoreline and the Mediterranean Sea.*

The inauguration of the first 1100 km long section (about 660 miles — ed.) of the transsaharian road between Ghardaia and Tamanrasset, crowns seven years of efforts by thousands of young Algerian conscripts and will break the isolation of the extreme southern part of the country as well as of the bordering Sahelian regions. . . .

Also called the "Road of African Unity," the new highway will improve exchanges between neighboring nations and accelerate the transfusions of aid to the Sahel desert. Furthermore, it offers an access to the

Mediterranean for Mali and Niger — who do not have a coast line — as well as Nigeria whose port of Lagos is glutted.

. . . Several projects concern the "Transafrican" highway between Kenya and Nigeria, the "transsahelian" route between Senegal and Chad, and the "trans-East African" highway between the Botswana and Egypt.

*These are excerpts from an interview with West German Chancellor Helmut Schmidt, appearing in Business Week, June 26:*

*Q:* What are the prospects for a European monetary union, or enlarged "snake," emerging from the summit talks?

*Schmidt:* One of the most urgent problems of the world economy, certainly, is to bring about greater stability in exchange relations. One of the possible ways could be a greater combination of European Community currencies to function as a heavier counter-weight to the international currency markets vis-à-vis the U.S. dollar, in order to stabilize exchange rates between the dollar, European currencies, and the Japanese yen.

I'm not so much thinking in terms of enlarging the snake, but of something which goes a little beyond the present snake. I am thinking in terms of pooling some currency reserves, not only dollars and SDR's, but also national currencies. I am thinking about a European unit of account that would also be the medium in which you settle accounts between the European central banks. I could imagine additional instruments of monetary assistance, of broadening the existing instruments and extrapolating them into the long-range field.

*Q:* What do you mean by that?

*Schmidt:* I don't want to be more specific right now. . . .

## Britain At The Summit

Le Figaro's "The Franc, the Mark and the Snake" by Alain Vernay, June 21:

Let's admit that Great Britain will do everything possible to prevent or delay a European monetary agreement, for several reasons. Thanks to the remarkable cleverness of the City, England draws a good part of its invisible earnings from disorderly currency fluctuations. Jim Callaghan is also thinking of re-establishing a special relationship with the U.S., encouraging it; nothing pays off more for the party in power (in England) than to act brutal, and if possible 'bestly' towards Europe three months before the elections.

But this doesn't mean one should fixate on the English obstacle: in the European monetary framework, there is no obstacle that could stand up to a full accord between Germany, France, and the (EEC) Commission.

*On June 16, the Financial Times used its "Politics Today" column by Malcolm Rutherford to air expectations that Great Britain would not control the agenda at the Bonn meeting.*

If the West German Economics Ministry has its way, there will be little in the Bonn economic summit meeting

next month to please the British government...The Germans...believe that they have a cast-iron intellectual case in that the German economic experience has proved more successful than the British, and that the British in time can be persuaded to adopt it...

The Germans already pride themselves, in a small way, on what they have done for Portugal in the days since the revolution and for Turkey since the American arms embargo. But this time the thinking is more ambitious. Aid for southern Europe would have to be dressed up as coming from the Community as a whole...yet the basic contribution would still be German. . . .

One senses a conflict here between those who want to help the Third World and those who are still suspicious of the developing countries in general and who believe that German interests lie closer to home. But there is also a certain acceptance that there could be a division of labor within the Community. France, for instance, could devote its attention to Africa while Germany concentrates on the poorer part of Europe. Certainly, Franco-German relations at present seem quite remarkably close.

# Soviets: Halt Damage To Detente

## *Pravda replies to President Carter's Annapolis Speech*

Under the headline "On the Current Policy of the U.S. Government," the Soviet daily *Pravda* has carried a 5,000-word unsigned commentary on President Carter's speech at Annapolis earlier this month and on developments in his Administration's policy. The June 17 article appeared after a week of sharp Soviet criticism of the speech for its "impermissible attacks" on Soviet policy, which were accompanied in *Pravda*, *Izvestia* and other Soviet papers by a rising tide of condemnation of National Security Advisor Zbigniew Brzezinski in particular.

As the *Pravda* analysis confirms, Brzezinski's efforts to "play the China card" and his reckless confrontationalism regarding Africa have Moscow worried that Carter, under his influence, will cause irreparable damage to U.S.-Soviet relations and endanger world peace.

*Pravda's* strong language leaves no doubt that this concern is growing more acute. Yet *Pravda's* reference to "positive" elements in Carter's speech shows a concerted effort by Moscow to fathom the factional alignments in United States politics, particularly within the Administration.

Moscow has not closed the door on détente and, as *Pravda* stressed, does not intend to as long as Washington refrains from slamming it. Soviet proposals for large-scale Soviet-American and multilateral coordination for nuclear power development, industrial growth through trade, and stabilization of hot spots were alluded to by *Pravda* once again and remain on the table.

\* \* \*

Recent facts indicate that changes dangerous for the cause of peace are occurring in U.S. policy. For some years, an acute struggle has been going on in that country's ruling circles regarding détente and relations with the Soviet Union and other socialist countries. And as time passes, signs are accumulating that those groupings which would like to subvert détente and return the world to the cold war, new confrontations, and unrestrained military rivalry are gaining the upper hand in this struggle. This is indicated not only by statements of the President and several other high-ranking U.S. officials, but also by Washington's concrete actions....

The talks with the Soviet Union on strategic arms limitation (SALT) are being deliberately slowed down.

The U.S. government has also taken actions whose goal cannot without difficulty be evaluated as anything other than the deliberate deterioration of bilateral relations with the USSR. Attempts at interference in the internal affairs of our country are not ceasing. The U.S. is limiting, by unilateral actions, ties and contacts between the two countries. The opponents of good relations between the U.S. and USSR are seeking a common language with the aggressive anti-Sovietism of the Chinese leaders, who openly proclaim détente and peace a sham and war the only realistic prospect....

Implementation of a policy turn across such a wide front is of course no simple matter....The authors of Washington's "new" policy are trying to give it a "theoretical" basis by overemphasizing the elements of rivalry in U.S.-USSR relations and belittling the significance of cooperation. Some Administration representatives, presidential assistant Z. Brzezinski, for instance, have done this so crudely and awkwardly that they have caused a good deal of confusion in the minds of U.S. allies as well as their own fellow citizens.

President J. Carter's recent speech in Annapolis, it was announced, was supposed to clear away this confusion. But the U.S. president did not succeed in introducing clarity into American policy, above all policy towards relations with the USSR. He failed for the simple reason that the speech contained an attempt to reconcile the irreconcilable: assurance of fidelity to the ideas of détente and improvement of Soviet-American relations, with open attacks on the Soviet Union....

The President of the U.S. and his advisors may rest assured that this speech was read attentively and objectively evaluated in the Soviet Union. The positive statements in it...did not go unnoticed.

But viewed as a "programmatic" speech, as it was announced beforehand, it not only failed to disperse, but in fact deepened doubts regarding the course adopted by the U.S. It is sufficient to cite President J. Carter's statement that the Soviet Union should "choose between confrontation and cooperation" and that the U.S. is prepared to go either way. This way of posing the question is addressed to the wrong party — the Soviet Union long ago and absolutely chose peace and cooperation....It is the U.S., or more precisely, the current American Administration has still not made its final choice, or rather is trying to depart from the principles of relations previously worked out with the USSR....

*Pravda proceeds to refute arguments that the USSR is seeking "military superiority" as a goal in itself, and charges that it is the U.S., fearing parity, not Soviet superiority, that is pursuing escalated arms spending. On disarmament, which the article calls the "touchstone" of détente, Pravda details NATO's rebuff of June 8 proposals by the Warsaw Pact at the Central Europe force reduction talks and U.S. stalling on SALT, in which "on the overwhelming majority of questions agreement has already been achieved." Despite lip service to the need for SALT, the Carter Administration has recently "shown no readiness to discuss concretely the unresolved questions," remarks Pravda and adds that the administration is not moving to counter expected congressional opposition to the treaty:*

Together with the intensification of military preparations, the changes in U.S. policy also show up in the transition to an openly interventionist, neocolonialist

policy regarding African countries....(including) plans to include some African countries in NATO's sphere of activity....Moscow, on the other hand, learned of the events in Zaire from Western wire reports. There are absolutely no Soviet or Cuban people in Shaba in any capacity whatsoever. Just as there are no copper, cobalt or uranium mines there belonging to the USSR....

Meanwhile, there are real problems, aside from fabricated ones like "Soviet-Cuban interference." They are difficult problems, concerning the liquidation of the consequence of colonial rule, strengthening the sovereignty of young states, accelerating their economic and social development....

*Pravda regrets that under the pretext of a "human rights" campaign in the U.S., the development of bilateral cultural and scientific exchange has been delayed.*

Another development which does nothing to strengthen trust is Washington's recent intrigues, or rather "little games," around China. In itself, the aim to play the "China card" in the global game is nothing new for American politicians. But hitherto, it seemed, American leaders took into account that this card cannot be played without creating dangers for the cause of peace, and for themselves — for the national interests of the United States itself.

Some people occupying major posts in Washington, however, apparently now are so caught up in anti-Soviet emotions that they discount these dangers. Such people close their eyes to the fact that blocking with China on an anti-Soviet basis would close off possibilities of cooperation with the Soviet Union in reducing the threat of nuclear war and, of course, the arms race. They also forget that the Chinese leaders are playing their own game here. While the U.S. and NATO countries are not averse to using in their own interest the difficulties in Soviet-Chinese relations, the Peking leaders have something else on their mind: to irritate relations between the USSR and U.S. to the maximum and use this aggravation not for American, but for their own interests. Soviet-American confrontation — or, even better, war — is Peking's great longing. Perhaps this theme will be thought about less hurriedly and more sanguinely in Washington.

*Following an analysis of some factors behind the U.S. policy shift, which Pravda attributes to "the enemies of*

*détente," the Soviet statement replies to the perceived need in the U.S. for a "hard line":*

...It seems that "hardness" and a "tough line" have become very popular words in America....We see today that the "tough line" has every chance of turning from a tactic into a dangerous and uncontrollable policy with a force of momentum not easy to overcome, and of causing the corresponding counter-action in the world....

Of course, firmness and courage are useful qualities for any politician. But only if they are aimed at good goals and are combined with political wisdom, the ability to be guided by higher interests and to differentiate them from petty, immediate gains; the ability and desire to look ahead to tomorrow and evaluate in advance the consequences of one's actions today. And political courage is not bravado, or the readiness to resort to strong terms and wave the stick. Political courage is rather the ability to chart out and consistently implement a principled political course and to control one's emotions and exercise restraint, without fearing the squawks of political opportunists nor giving in to the advice of adventurers.

The changes in Washington's policy are beginning to cause concern in America itself and on the part of its allies....

The world public also wants to know: how will the Soviet Union answer the toughening of American policy? This question takes on great urgency, as the insufficiently thought-through and sometimes openly provocative nature of many U.S. actions becomes apparent....

The Soviet Union is not going to help the authors of (intentions to return to the cold war). Our people has seen too much and lived through too much...to back down before sabre rattling. It has chosen the road of peace and will not permit itself to be driven from it. We do not accept invitations to the funeral of détente and the hopes of millions of people for a peaceful future....

In a situation made more difficult by U.S. policy, the Soviet Union again affirms its policy of international détente and the development of good relations with the United States, if the U.S. wants this....

The present policy of the U.S. is fraught with serious dangers. Dangers for the U.S. itself, for all countries with an interest in peace, for the entire course of international developments. It would be desirable if this truth were understood soon in Washington.

# Stop The 'Crash Of '79' Now

*A nonpartisan action program for '78 from the U.S. Labor Party*

*The last issue of the Executive Intelligence Review featured a call by Lyndon H. LaRouche, Jr., chairman of the U.S. Labor Party, for the creation of a nonpartisan "policy counterpole" to guide the United States on the most crucial issues of national and international interest. In the June 20 issue of the Labor Party's newspaper New Solidarity, LaRouche put forward the program and political perspective for that counterpole formation. We reprint LaRouche's proposal in full here.*

If a suitable combination of forces within the United States begins to move in concert with our nation's keystone allies, quickly enough, we have the correlation of forces needed to halt the present depression spiral and to establish a *permanent* economic boom. The present governments of Japan, France, Italy, Mexico, the Federal Republic of Germany, and others are committed to a global economic prosperity program known as the Grand Design. Both the governments of the Soviet Union and of Cuba have committed themselves to global economic, military and political agreements in collaboration with the Grand Design policies embedded in the May 1978 Schmidt-Brezhnev accords. These efforts are still moving slowly — too slowly — because most of these nations are waiting for key forces within the United States to join openly in pushing forward these Grand Design policies.

Behind closed doors, key U.S. industrial leadership and some portions of commercial banking leadership are prepared to commit themselves to such Grand Design policies on condition that a broader popular political base can be created within the USA to support such export centered economic recovery efforts. The political base exists among the top leadership and base of the NAACP, among technologically progressive American farmers, among the top leaderships of some trade unions — such as the IBT, USWA, IBEW and building trades unions — and among the majority of the rank and file and secondary leadership of many other trade unions, including the UAW. If these sections of the general electorate, and others, are properly informed of the solutions available, the majority of the electorate can be quickly rallied to create a political juggernaut for the policies required to launch an accelerating and permanent economic recovery.

The problem is that the majority which would rally to such a policy is presently atomized, to the effect that a tiny section of the trade union leadership, a small group of London-allied investment bankers, and a small minority of both the Republican and Democratic parties' leading circles are controlling U.S. foreign and domestic

policies by default. In effect, a minority based on less than 30 percent of the general electorate, on the anglo-philic liberals, Buckleyites, and radicals, is plunging the majority of the population and the economy into an imminent general depression and worse.

The special nonpartisan function of the U.S. Labor Party, as so far the only consistently vocal public voice for policies in the nation's vital interests, is to present the comprehensive policy package needed to bring the atomized forces of the nation's majority together. The following policies outline the crucial elements of the comprehensive thrust which will work to the desired effect.

## General Policy

The general policy is based on the fact that effectively directed advances in the technology of industry, agriculture, and infrastructure enable increases in per capita output to the effect that profits and real incomes can rise in parallel. This policy is also based on the corollary fact that technological stagnation infallibly causes marginal depletion of primary resources, such that the per capita outputs fall secularly, driving down both per capita real incomes and profits.

The Grand Design policy means an accelerating expansion of world market volumes: the policies of the IMF, World Bank, and "Brandt Commission" mean a catastrophic collapse of the world economy.

The billions of the developing sector could make a massive contribution to global wealth if two conditions were fulfilled. They must undergo rapid advancement in the technology of industry, agriculture, and infrastructure under conditions of the replacement of presently backward modes through expansion of relatively advanced modes of production. The ability to use high-technology tools efficiently depends upon a matching cultural enhancement of the labor forces to be employed. Education, the material conditions of household life, and other essential elements of social infrastructure are indispensable included means for developing a labor force adequate to advancement in the mode of production.

Under the policies proposed presently by the International Monetary Fund, World Bank, the "Brandt Commission," and like-thinking institutions, the mass of non-performing debt of the developing (and other) nations

will simply be pyramided through refinancing measures proposed, while the collapse of world trade combined with a labor-intensive policy in those nations guts the ability to pay current obligations. So, the lunatic policies of the IMF, World Bank, and "Brandt Commission" mean a pattern of spiraling debt service combined with a downward spiraling of ability to pay, and an overall effect of a collapse in primary commodity requirements as part of a general collapse of world trade.

The Grand Design policy means an accelerating expansion of world market volumes: the policies of the IMF, World Bank, and "Brandt Commission" mean a catastrophic collapse of the world economy combined with economic-genocidal effects and permanent social instability and wars throughout the developing sector.

The key to the success of the Grand Design policies is the proper organization of long-term, low-interest credit. Agricultural projects cannot reach a breakeven point in less than 7 to 15 years. Capital-intensive energy projects require a comparable period from beginning of construction to self-sustaining payout. In general, long-term financing of less than 15- to 25-year maturities is economic lunacy for the developing nations' markets. Also, for related reasons, initial grace periods must match the maturities of the projects involved.

If debt service obligations rise more rapidly than new income developed, the premature accumulations of debt service abort both world trade and continued development. Thus, a development program financed over too short a term tends to collapse financially at a point prior to the phase of maturity at which it would otherwise become a substantial income producer. If financing is gauged to practicable performances of new projects, the income generated by the projects feeds an accelerating rate of credit-worthiness of those nations for additional projects. This ought to be ABC to any industrialist or commercial banker from experience in successful (and unsuccessful) investments in his own nation.

This depends upon a massive flow of relatively cheap long-term credit and cheap credit for short-term trade financing. This requires the following policies.

In the long term, the ability of capital-exporting nations to sustain long-term advances of credit to importing nations depends upon a corresponding, allocable margin of above-breakeven income to the exporting nations.

The present mess in the City of London illustrates the point. The United Kingdom is operating currently below the breakeven level of tangible output: it is in fact gutting the constant capital of its industrial sector and infrastructure in the effort to keep the decaying British economy from internal collapse. The capital exports from the City of London are predominantly of a purely parasitical form. London seeks to borrow cheaper from the Federal Republic of Germany (etc.) and to loan dearer. The net income of Britain, and especially the City of London, depends upon keeping this parasitical banking role. London has a negative capability of capital exports and credit on the account of the internal economy of the United Kingdom itself. London demands that Germany and Japan simultaneously reduce their export earnings, while also demanding that Germany and Japan increase

their loans to the City of London relending market. It is sheer economic and monetary lunacy, but the world market is for the moment ruled by precisely such lunacy.

In order to continue such an arrangement, London is forced to peg prevailing lending rates constantly higher. The inflationary forces generated by combined effects of collapsing hard-commodity production and trade drive the basic interest rates upward, in a race between interest rates and inflation nourished by high interest rates. So, the price at which London must reborrow to lend goes constantly up, inflation is thus accelerated, high interest rates drive down levels of world trade and production, inflation is pushed higher by this effect, and the London rate climbs without limit.

For the British economy there is no direct solution. The internal economy of the United Kingdom is too dilapidated to recover by means directly available to it. It is presently incapable of generating a net national surplus on production and trade accounts.

The idled margins of other industrialized economies, especially those of the United States, Japan, and the Federal Republic of Germany, do represent an available margin of increased marketable output for exports and internal retooling for exports sufficient to generate a substantial margin of world export surplus to be absorbed in net as capital-goods, high-technology imports by the billions of people of the developing nations.

This will have massive benefits for the internal economies of the industrialized nations. By absorbing the idled portions of the nations' labor forces in employment in presently idled and expanded export-levered production, the real incomes of those nations are substantially in-

We have the means to halt monetary inflation, almost to a dead stop, provided we take measures of the sort indicated.

creased while the direct and indirect costs of unemployment and underemployment are reduced. The internal tax base of each nation is expanded, reducing the tax burden on a dollar-equivalent of real income produced. An export drive based on "technology transfer" to the developing nations can be financed out of conversion to credit of a portion of the increased incomes of the industrialized nations while catalyzing a self-generating internal economic boom in each of those national economies.

As the developing nations increase their buying power, they will quickly reach the levels of earnings sufficient to carry properly scheduled margins of increasing debts, and over the intermediate term will reach levels sufficient to meet requirements of properly rescheduled, carried-forward debts from the pre-Grand Design period. At the same time, these nations will be increasing markets for imports on current account. As the initial, intermediate term of five-seven years is completed, the global economic boom launched will become a self-generating, permanent economic boom.

## Financing

For the longer term financing of exports, the new credit must be low-cost, long-term credit generated by national governments, as a by-product of the fiscal operations of national governments. In the short term, we have at present an excess of liquidity, especially dollar liquidity, in international markets. Immediately, we must concentrate on converting that excess liquidity into investment funds for relatively low-interest, long-term investments and short-term, hard-commodity trade financing.

To accomplish this short-term objective, we must take the following steps.

We must "dry out" the high-interest financial markets. A new international banking institution must be created, and all national governments participating in this effort must concur in lending and borrowing funds of central banks and national treasuries through that new banking institution at low interest rates. The idled liquidity must thus be confronted with the alternative of being either hung out to dry or buying low-yield, but secure, long-term bonds in such an international banking institution, or other banking institutions, or national debt instruments of the same qualities. We control the excess liquidity by creating painful disincentives for participating in high-interest speculative markets, and creating durable incentives for secure investments in low-interest markets.

In general, respecting the mass of outstanding high-interest debt, we must dry out this portion of the financial markets by purchasing existing debt with issues of low-interest debt. The case of the New York City debt and portions of the USA internal real estate bubble are examples of this.

Let us consider the New York City debt as an example of the overall approach. If we issue *low-interest*, long-term instruments against outstanding debt, with the backing of national credit for this operation, the new, low-interest debt instruments can serve as high-grade negotiable paper within the commercial banking system, which can then be discounted with the Federal Reserve System to the effect that commercial banks increase their lending power for loans to useful purposes.

The feasibility of this arrangement depends upon other measures, some of which we shall outline here, and depends especially upon stopping monetary inflation. We have the means to halt monetary inflation, almost to a dead stop, provided we take measures of the sort indicated.

If the obligations of debtor nations to the IMF and World Bank are frozen for the medium term, the remaining margins of Third World and other foreign debt balances can be successfully reorganized along the lines we have indicated for the New York City debt. The point is that the IMF and World Bank are obliged to nations, such that payments to the IMF and World Bank can be frozen for the medium term without any of those dangerous effects of freezing obligations to the private banking system. If the remaining margins of developing nations' carried-forward debt are exchanged for long-term, low-interest debt, those new instruments will serve as assets in the portfolios of commercial and investment banking

institutions, which can be pledged or sold to obtain new reserves.

This operation will require legislative and other action to reduce the borrowing costs of commercial banks, an action which can be shown to be overwhelmingly equitable if inflation is halted.

The two, interrelated chief causes of inflation are the current downward spiral of production and world trade, and rising borrowing costs. If world trade and hard-commodity production are increased and borrowing costs for productive purposes sharply reduced, the engine of inflation is stopped. Inflation then tends to converge downward on the margin of cheapening of the competitive costs of production and distribution — that is, on the margin of lag between cheapening of commodity costs and declines in prices reflecting such cheapening. Under these conditions, basic central bank interest rates in the order of between one and two percent are feasible. Those prime central bank interest rates, coupled with an export drive, are the preconditions for halting inflation and ensuring a permanent economic boom.

It is to be emphasized that the danger to our commercial banking system is the high ratio of overextended paper in the banks' portfolios. By taking coordinated action to halt inflation and increase production and trade, this poor paper can be exchanged for high-grade, low-interest, negotiable paper. In that way, the present danger can be converted into a solid asset . . . as Alexander Hamilton did successfully with U.S. indebtedness during the Administration of President George Washington.

The overall financing policy must center around a *two-tier* credit market, both within the United States and in international markets. We now outline the proper principles of U.S. domestic fiscal and credit policies.

### The Use of Incentives

The desperate gentlemen from the City of London, including the London *Economist* branch of the British Secret Intelligence Service, are once again attempting to manipulate the credulous folk around Washington and lower Manhattan as London has successfully duped and swindled the U.S. financial and political policymakers so many times before during this century. The immediate problem is that many credulous folk around lower Manhattan have made a 20th century "American tradition" of being swindled by London, clinging firmly to a dupe's ideology whose code-phrase is "free trade." Although the United States was founded upon the *dirigist* principles associated with Alexander Hamilton, and the American Revolution fought against the British monarchy and City of London to make us an industrial nation, the dupes around lower Manhattan have foolishly confused British policies with American industrial-capitalist policies.

The economic function of the federal government in an industrial-capitalist republic is chiefly to promote abundant credit for technological progress in industry, science, and agriculture, and to undertake those specific economic measures, especially in infrastructural development, which cannot be accomplished by private firms. The central task of the federal government in this connection is to shape federal fiscal policies and national

banking and credit policies to provide incentives for productive efforts by private citizens and to let the greater burden of taxation and borrowing costs fall upon those private ventures and other activities which are less desirable.

We begin with fiscal policy, emphasizing tax policies.

Proper tax policy begins with a definition of those components of national income which make the most direct contribution to increasing the national income. These are, categorically, science, industry, agriculture, basic income of households, and essential infrastructure of both economic and social life. Development of scientific progress, increasing the output and profitability of industry and agriculture, maintaining and developing the labor force, and providing the infrastructure essential to all these are the primary economic concerns of our republic's fiscal and credit policies.

Let us begin with household income. Our present personal income tax policy is based on schedules established during the Second World War, employing schedules of exemption which, including later adjustments, do not reflect the massive inflation which has occurred since 1940-1942. In consequence we have reached the condition of absurdity in which we maintain vast bureaucracies, first to tax portions of basic household income which ought not to be taxed, and then to manage the distribution of portions of federal, state and local revenues to make up for parts of the household income lost through taxation.

There are, admittedly, activities in which the federal, state or local governments could more efficiently purchase services for household consumption than can be accomplished through individual household purchases of such services. A major element of cost in the New York City public transit system is the collection of fares. If fares were eliminated, and such transit services provided out of the general fund, a vast economy would be effected in the New York transit system operations, an economy which could be divided between cheapening the cost of the service per person served and capital improvements.

Such proper forms of centralized governmental purchases on behalf of households — water, streets, police and fire services, and so forth — ought not to be confused with the case in which a number of bureaucrats are employed by the government to manage the individual disbursement of services to individual households. The administrative side of the vast social services bureaucracy is the best known of the horror shows created by a misguided, British-influenced outgrowth of the British Settlement House movement and social work profession and bureaucracy.

We must rapidly increase the tax exemptions on household incomes, as rapidly as such a readjustment can be absorbed into our practice, taking the government out of all unnecessary, bureaucratic administration of transfer payments from and into household income and equivalents. We must simplify our tax system in this way, using threshold levels of household income to determine which portion of households falls into taxable categories.

Admittedly, feasibility studies are needed to determine the details of such a policy, but the principle is clear and

the obviously feasible first steps in this direction ought to be implemented as part of adoption of such a guiding policy.

The immediate gut of our tax policy problem is the matter of taxation of industry, agriculture, and private infrastructural entities.

The basic approach is to set a high basic tax rate, but to offset that basic tax rate with substantial tax credits for productive improvements. The point is made clear with the following exemplary illustrations.

We must accelerate our depreciation and depletion allowances for tangible improvements in industry, land and infrastructure. In general, despite all the misguided chatter about investment tax incentives as a "tax giveaway," our national depreciation and depletion allowances for improvements have always been significantly less than sound economic principles dictate.

The more citizens' self-government is built into fiscal and credit policies, the more we gain from the benefits of the individual intelligences of citizens.

What we have done with our policy trends in combined fiscal and credit policies is to favor unproductive speculative gains as investments over productive investments. The dupes of the London *Economist* who howl against dirigist policies have never, to our knowledge, objected to the fact that the postwar policies of the federal, state and local governments have been predominantly dirigist in respect of providing major incentives for inflationary speculative investments over productive investments. "What is good for the goose is good for the gander, gentlemen; we simply propose to reverse the balance in *the kinds of dirigist policies you yourselves have supported over the past 30 years.*" We shall use tax and credit policies to make productive investment far more profitable than unproductive speculations in unimproved assets.

For example, Citizen A has purchased equity in the XYZ widget manufacturing firm. Citizen A receives very nice dividends from this investment. If Citizen A uses these dividends for purchase of *primary issues* of equities themselves used for expansion or improvement of industry, agriculture, infrastructure, or scientific ventures, Citizen A will receive, in effect, an attractive "tax loophole" as incentive for serving the national interest. If he retains the income, he faces the following alternative. The portion of income accounted as household income is treated as such. If Citizen A merely saves the income above household consumption, or invests in something beside the creation of tangible improvements in the national interest, the full weight of tax schedules strikes that portion of the citizen's income.

This benefit on reinvestment of profits is accomplished in the following kinds of ways. We create incentives for retained earnings used for productive improvements, making this a favorable disbursement of equity earnings

over distribution. The next most favored category is the immediate (same year) reinvestment of distributed equity earnings in government securities or primary issues of stock for which the proceeds of the stock-issue sale are used for productive improvements. The benefit for reinvested distributed income must be greater than for corporate and partnership retained earnings *not applied to* productive improvements.

The consequence of such tax policies is to concentrate newly created investable wealth into either direct productive improvements or in U.S. Treasury or National Bank bonds which, in turn, nourish the participating private bank's lendable reserves. By the participating relationship between private commercial banks and federal agencies, federal institutions' limited participation for purposes such as exports and productive improvements provides a flow of cheap credit to productive and related purposes, and creates a floating, higher cost of borrowings outside those domains identified as consistent with national interest.

### Effects on Labor Policy

Such *two-tier* approaches to fiscal and credit policies of government create a disincentive for labor-intensive forms of employment. Thus, corporate and partnership interest adapts itself to fostering development of the labor force. The corporate perception of self-interest is shaped by such incentives into precise conformity with national interest.

The included consequence and advantage of this approach is that a far greater portion of national purpose is accomplished under the influence of incentives outside the direct intervention of federal, state and local government, while federal government becomes both stronger, more efficient — and smaller — than present parameters prescribe. The more citizens' self-government is built into fiscal and credit policies, the more we gain from the benefits of the individual intelligences of citizens, and the less we require the often muddled draconian interventions of government bureaucrats.

Consider the illustrative case of computer technology. With the advent of minicomputer technologies, an executive can carry in his pocket, for a few hundred dollars, more computer power than could be purchased in office equipment costing thousands of dollars a decade ago. The poor old slide rule this author used to carry back during the 1960s is now a museum piece.

Once we overcome carried-forward misguided thinking which simply duplicates manual accounting operations and so forth on computer systems, the computer

properly used enables us to slash administrative labor, freeing large sections of the educated labor force for skilled and semiskilled productive employment. If we study the trends in absolute numbers of productive

One well-designed package of fiscal and credit incentives will cause the desired result to occur as if automatically.

operatives since 1953, and study these absolute figures as percentiles of the total labor force, we see at once the nature of the cancer of "structural decay" in the composition of the labor force, away from production and toward "services," is the reason our cities and other elements of the economy are in decay, and why basic services, such as essential medical services, are secularly skyrocketing in ratio to mean household incomes.

By emphasizing tangible productive improvements in the design and management of fiscal and credit incentives (and disincentives) corporate interest will automatically adapt itself to the effect of producing an accelerating shift away from unproductive forms of "services" into basic "structural changes" in the composition of our labor force. An increasing ratio of the population will be producing useful, tangible wealth, and rising mean levels of technologically mediated social productivities. A thousand bureaucratic bills passed by Congress will only scratch the surface of this problem. One well-designed package of fiscal and credit incentives will cause the desired result to occur as if automatically.

### Summary

The preceding outline serves to indicate the thrust of the policies which must be adopted as guiding policies now. We must mobilize a constituency for these policies as a political alliance of industry, labor and minorities, or what we term in shorthand as a "labor-industry" alliance.

This also serves implicitly, but efficiently, to expose the absurdity of what is being offered by the Brookings Institution, by the dominant forces of the Trilateral Commission, as well as by such lunatics as Blumenthal, Miller, Kissinger, Califano, et al. All the currently popular "curves" are worse than buncombe; they are the outlines of a commitment to national and global disaster.

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# Brzezinski Anti-Sovietism Cornered

*Vance steers African policy toward detente*

A sweeping drive to silence National Security Advisor Zbigniew Brzezinski and reorient American foreign policy, beginning with U.S. African policy and U.S.-Soviet relations, is underway. The emphatic reversal of U.S. African policy away from confrontationist involve-

## FOREIGN POLICY

ment and the "Cuban-Soviet bogeymen" outlook, and towards cooling down the African situation, as per Secretary of State Cyrus Vance's testimony before the House International Relations Committee and his Atlantic city African policy speech, are among the clear signals that a large scale and — bitterly fought over — across-the-board foreign policy reorientation is occurring.

Brzezinski's recent policy statements have set into motion two broad types of political forces to put a cap on his insistence on global confrontation policies directed against the Soviet Union. Generically speaking, these two political forces are 1) U.S.-centered power groupings enraged over the threat to U.S. national security posed by Brzezinski hegemony over Administration foreign policy, and 2) British-allied spokesmen who are convinced that Brzezinski overplayed the "China card" as a means to threaten the Soviets.

These latter view Brzezinski as totally incompetent to act on behalf of London's two overriding strategic concerns. These are: first, the necessity of successfully sabotaging joint West European and Arab organizing for implementation of the historic May 6 Bonn-Moscow accords; and second, London's wish to maneuver any confrontation with the Soviet Union away from Europe and into the Pacific theater.

The White House decision to designate Vance as the up-front spokesman for Administration African policy — at Brzezinski's obvious expense — is the other leading indicator of Administration response to the very heavy pressure to "exile" Brzezinski.

Government officials (particularly in the State Department), members of Congress, and industrial and political leaders around the country have all exerted tremendous pressure on the White House, especially as the Brzezinski and CIA head Stansfield Turner "Cubans in Zaire" invasion stories became totally discredited.

Referring to the National Security Advisor's anti-Soviet ravings while visiting China, and Carter's own echoes of this stance in his recent Annapolis speech, one Capitol Hill source explained that "Carter has the vast majority outside the White House horrified by this. Now

he understands that the Administration's words have an impact, that they can't be said lightly."

Congressional pressure on the Administration is exemplified by the fact that Vance's presence at the House International Relations Committee was requested in a letter sent out by 14 members of the Committee to Carter expressing their concern at the direction of U.S.-Soviet relations. Representative Lee Hamilton (D-Ind) queried the Secretary about *Pravda's* attack (see excerpts, "International Report") on Administration Cold War postures and asked if recent events indicated a shift of U.S. policy into a tougher approach, which Vance denied. The Indiana Congressman persisted that his constituents have been pressing him about this change in policy and that he needed a straight answer.

### *What Vance Has Said*

The summary of Vance's two speeches, outlining the new U.S. African policy are as follows: 1) the primary U.S. orientation toward Africa consists of "economic development, trade and aid"; 2) peaceful solution to area conflicts; 3) no U.S. military involvement, and a pledge not to use Africa as an arena for East-West confrontation; 4) a near-total omission of the recent hysterical rhetoric of the so-called Cuban-Soviet involvement in the Shaba invasion, a distinct downplaying of "concern" over the "Cuban-Soviet role" in Africa; and 5) most indicative of how far this shift has gone, the opening extended to Angola for relations with the United States.

However, Vance has left more questions — the most important ones — open than were answered by these policy addresses. His remarks, taken at face value, straddle the fence between the twin-pressure currents bombarding the Carter Administration. Vance's speeches identify a negation of a previous policy — in this case, Brzezinski's. They do not establish a new policy, but merely an opening towards a new policy, a policy that can either reflect the London pressures, or, an African policy of progress and detente more in line with the "Grand Design" inclinations of powerful U.S.-centered interests. The foremost litmus test will be for the Secretary of State, and indeed the Administration to define concretely what "economic development, trade and aid" mean. Until now, no answers have been provided.

Below is arrayed the crucial evidence pertinent to the above analysis. We begin with excerpts taken from Secretary of State Cyrus Vance's opening statement before the House Committee on International Relations, and his Atlantic City speech before the Junior Chamber of Commerce Convention on African policy. These are followed by our exclusive publication of comments

from a high Administration source. This official expresses his endorsement of the Vance speeches as they now stand. Excerpts then follow providing a sampling of known London-affiliated conduits, all speaking out against any confrontation over Africa.

—Konstantin George

## Vance Reflects Administration Fight

*New York Times*, "Vance Urges Effort by U.S. And Russians to Reduce Tensions," June 20:

On specific issues, Mr. Vance said the controversial question of Cuban involvement in the recent fighting in southern Zaire had been "blown out of all proportion." He also seemed to take issue with the bitter comments of Mr. Brzezinski and Mr. Carter about Soviet behavior by warning that although there would always be strains in relations, "one should be careful in terms of rhetoric one uses because I think it is very easy to slip into rhetoric that may be excessive and may lead to what people call the cold war."...

Mr. Vance has been worried, according to his aides, that Soviet-American relations were being worsened unnecessarily by what he regarded as gratuitous attacks on both sides. Although he personally supported the substantive points in Mr. Carter's speech at Annapolis June 7 on Soviet-American relations, he had no hand in preparing the language that offered Moscow the choice of either "confrontation or cooperation."....

*Following are excerpts of Secretary of State Cyrus Vance's opening statement to the June 19 House International Relations Committee:*

The recent introduction of large quantities of Soviet arms and thousands of Cuban troops in certain parts of Africa raises serious concerns. The size and duration of their military presence jeopardizes the independence of African states. It creates concern on the part of African nations that outside weapons and troops will be used to determine the outcome of any dispute on the continent. And it renders more difficult the efforts of Africans to resolve these disputes through peaceful means.

As I plan to indicate tomorrow in a speech on our African policies, our strategy is based upon an affirmative and constructive approach to African issues — helping African nations meet their pressing human and economic needs, strengthening their ability to defend themselves, building closer ties throughout Africa and assisting African nations to resolve their conflicts peacefully....

This strategy represents a sound and positive approach to African realities. Let me emphasize the essential point that the basis for our position in Africa — a position which is strong and growing stronger — is the African perception that we see them, and their problems

in their own terms, and not as an arena for East-West differences.

*Following are excerpts from the June 20 speech by Secretary Vance at the Atlantic City Jaycees convention — provided by New Solidarity International Press Service, Washington, D.C.*

...Last July...I said that we can be neither right nor effective if we treat Africa simply as an arena for East-West competition. Our Africa policy has not changed. Its objectives remain forward looking and positive....

What are the ingredients of a positive African policy? Simply stated they are:

- A strong U.S. commitment to social justice and economic development in Africa;
- Efforts to help resolve African disputes peacefully;
- Respect for African nationalism;
- Support for legitimate African defense needs;
- And finally, helping to foster respect for human rights....

In this connection, we believe it could be helpful to increase our consultations with the Angolan government and begin working with it in more normal ways in order to improve the prospects for reconciliation between Angola and Zaire, as well as for achieving a peaceful settlement in Namibia....

...We do not ignore that there is a residue of suspicion among some Africans who have fought against colonialism that our policy is simply a tactic and not a reflection of a genuine commitment to African needs. Only time and our continued demonstration that we mean what we say will meet this problem.

We are convinced that an affirmative approach to African aspirations and problems is also the most effective response to Soviet and Cuban activities there. Any other strategy would weaken Africa by dividing it. And it would weaken us by letting others set our policies for us....

*New York Post, "For Vance, the test is crucial," by Joseph Kraft, June 19:*

Unfortunately the president, instead of stating the general case, made a specific allegation based on secret intelligence. "We," he said at a news conference in Chicago on May 25, "know that the Cubans have played a key role in training and equipping" the forces which attacked Zaire.

In fact the evidence is far from clear. Castro has denied the charge and given American congressmen a story to the effect that Cuba actually tried to block the invasion from Angola....

But it is a fair test given the rivalry between the secretary and the president's chief White House adviser on foreign policy, Zbigniew Brzezinski. Those who doubt Mr. Brzezinski's judgment have been urging the president to give primacy to Mr. Vance. The president seems to be moving in that direction....

*This exclusive coverage of a press briefing by a high-level Administration official was provided by New Solidarity International Press Service, Washington, D.C.*

*Q: You say "work with Angola in more normal ways" — what's afoot?*

*A: In the Shaba crisis and Namibia, it is clear that Angola can have a key role in the solution of both. Other nations have realized that greater communication between Zaire and Angola are necessary to resolve the border problem. We are prepared to engage in more normal working relations with them. This does not mean diplomatic relations in the first instance....we have exchanged, in the Shaba crisis and, less directly, in the Namibia situation, communication with them.*

*Q: How much do you intend to increase development aid?*

*A: We are up to a FY '79 request of \$467 million. We would look for a further increase in '80.*

*Q: Any encouragement from the Angolans in our attempt to get cooperation?*

*A: On Namibia, Angolans as part of the front-line group have taken a supportive attitude towards front-line proposals and are supportive of the contact group. The front-line states are very supportive, especially the Angolans. We have seen a constructive attitude on their part — a willingness to be supportive of efforts the contact group have made.*

*On the Angola-Zaire situation, we do have indications from Angola of responsiveness to our and African concerns about the border. We are encouraged to believe that the government has a positive attitude about the need to stabilize the border.*

*Q: What is the Administration policy on establishing diplomatic relations with Angola?*

*A: We would like, as a matter of principle, to have normal relations with all states....If there is a reduction of Cuban presence, the question of normal relations could again come up. But there are problems....*

*New York Times, "An Ominous Silence," by James Reston, June 21:*

*...If I understand what is going on here, Mr. Carter is making a major reappraisal of his priorities. After concentrating on "human rights," Castro, Cuba, Angola and Zaire, he is now returning to the major questions of relations with the NATO allies, of arms control with the Soviet Union, and of U.S. relations with Japan, China, India and Southeast Asia. He is concerned about organizing what he calls a "world structure of peace," which means working with the NATO allies and Japan to control the trade and monetary chaos in the world; to encourage the European allies to use their influence to avoid racial and tribal violence in Africa; to urge the Chinese to come out of isolation....*

*New York Times, "Earning African Friends," by Jonathan Power, June 21:*

*...What should the West do if it is to stop giving points away to the Russians and Cubans in Africa?*

*First, it should stop behaving as if it believed the Cubans had some master plan for the takeover of Africa....*

*Finally, it must not let up its pressure on South Africa to strike a deal with S.W.A.P.O. in Namibia, and must persuade Ian D. Smith and his black acolytes in Rhodesia that they have no alternative but to subscribe to the Anglo-American proposals for a settlement.*

*If the West did this, within two years it would find it had a strong belt of Western sympathizers right across Africa with whom it wouldn't be ashamed to be friends.*

## U.S. Steel Unionists: We Need Capital Investment Like Japan's

As the following interview, reprinted from the monthly newspaper of the United Steelworkers of America (USWA), *Steel Labor Today*, reveals, the basis for forging an active political labor and industry alliance around policies of economic growth, nuclear energy

### LABOR

development, and high technology investment exists as an immediate potential.

Entitled "Japan's Steel Industry: An Ultramodern Complex," the interview reflects a profound

commitment by steelworkers and key sections of the union leadership to what in actuality are "American System" policies of industrial development and technological progress. Interviewed are Robert J. Petris, Director of USWA District 38, and Al Marnati, President of USWA local 2869, Kaiser Steel, Fontana, Calif.

The Japanese, the two labor leaders assert, have taken what used to be American investment practice and technological know-how and applied it to the effect of building a powerful industrial nation, whose output in some cases, as in steel, exceeds even the U.S. in quality and tonnage. While not specifically locating Japanese practice in terms of the American System strategies laid

out by Alexander Hamilton and his intellectual descendant Henry Carey, the two union leaders demonstrate in their interview that the Japanese, by taking the American System as their own, have emerged, almost in the place of the United States, as the major political force and spokesman for the Hamiltonian principles of progress and technological development everywhere.

The drivel that the Japanese success is based on exploited, low-wage workers is just not true, the two steel labor leaders explain, pointing out that the Japanese steelworker enjoys a standard of living comparable to that of his counterpart in the United States. The interview, a remarkably frank acknowledgement by U.S. labor leaders of the grossly deteriorated condition of a basic U.S. industry, asserts in so many words that the U.S. must return to the American System principles by adopting the Japanese model for upgrading and modernizing its industry.

Its appearance in the recent issue of the Steelworkers' paper signals to American business and industry forces the possibility of building a visible mass-based constituency for policies of industrialization and high-technology exports.

What the two steel labor leaders propose, in fact, is diametrically opposed to the official trade war and protectionist ravings of the AFL-CIO. AFL-CIO Secretary Treasurer Lane Kirkland and Industrial Union Division head Jacob Clayman have repeatedly called for Smoot-Hawley tariff measures against particularly Japanese steel imports to "protect" American jobs and safeguard the American steel industry. As is indicated by the example of the Japanese case, the Kirkland-Clayman formula spells not prosperity, but disaster for the American worker and U.S. industry.

The publication of the Petris-Marnati interview signals an intensification of the bitter struggle between growth-oriented USWA forces grouped principally around Vice President Joseph Ordersich and sections of the USWA leadership, including President Lloyd McBride, which are manipulated by Kirkland. McBride, since his election last year, has become an increasing disappointment to especially those sections of the Steelworkers who supported his candidacy on the basis of his explicit commitment to industrial development policies. McBride's recent mouthings of Kirkland's protectionist and deindustrialization formulas,

exemplified by his public support for solar energy, is producing a crisis in the union's leadership.

The factional situation in the USWA parallels the fracturing of the allied Building Trades and Teamsters unions along the same lines. The factional lineups in these giant labor organizations are as sharply drawn as those inside the Steelworkers, with the major notable difference being that a greater portion of IBT and Building Trades leadership has moved publicly in favor of technological development and economic growth. USWA, IBT and Building Trades leaders have collaborated, albeit in a limited and unofficial fashion, on such important U.S. policy questions as nuclear energy development. The results of this allied activity, however, have been undercut by these officials' on-the-record endorsement of Kirkland's policy line.

In the USWA, McBride's backtracking is preventing the potentially powerful union from linking up with its allies in industry and among the American public generally. Under these circumstances, Vice President Ordersich, who has led the Steelworkers' fight for nuclear energy development and the Clinch River breeder reactor, has become increasingly vocal against Kirkland's policies. However, Ordersich has so far refrained from taking on the problem of McBride's misleadership, preferring to conduct his fight behind the scenes. If continued, this tactic will at best simply perpetuate the crippling stalemate between the AFL-CIO's Kirkland and the sections of the Steelworkers' leadership manipulated by him, and those USWA leaders committed to growth and modernization.

In the long run they will ensure defeat for Ordersich.

McBride is by no means committed to Kirkland's policies; his unseemly behavior on behalf of Kirkland is no doubt prompted by a considerable amount of armtwisting and intimidation. To get McBride back on the track of a sound Hamiltonian strategy, a position McBride is known to be personally committed to, requires a move by Ordersich and his allies outside the USWA to bring the policy struggle in the Steelworkers union into full public view where the full weight of the Steelworkers' membership and their allies in industry can be brought to bear. Under these conditions of support McBride can be forced to speak openly on behalf of his own personal commitment to growth, and in the broader interest of the trade union movement.

— Matthew Moriarty

## Japan's Steel Industry: An Ultra Modern Complex

*Following is the full text of the Petris-Marnati interview from the May 1978 edition of Steel Labor Today.*

Los Angeles — By far, the most spectacular growth in steel-making capacity of the world has been attained in Japan, which now has an estimated 11.5 per cent of the world's steel production but which consumes just a bit more than one-half of this steel tonnage domestically,

relying heavily on export to nations like the United States. But it restricts most foreign products from its market.

Imports are a major concern of American industry and the USWA, whose members have experienced considerable unemployment and underemployment attributable to increased steel imports from Japan.

In March, a delegation of USWA officials and local union officers visited Japan as guests of the Tekko Roren

steel union federation to its convention. While in Japan, they visited the most modern of its steel plants, the Ohgishima facility of NKK Nippon Kokan Corp.

Two in this USWA party, Robert J. Petris, director of USWA District 38, and Al Marnati, president of USWA Local 2869, Kaiser Steel, Fontana, Calif., were interviewed about their experiences by a STEEL LABOR reporter upon their return from Japan.

*"What general impression did you gain about Japan's steel industry during this visit that you didn't have before?"*

*Petris: "It's unbelievable! The way they are making steel at the new works we visited appears to me to be at least five to 10 years ahead of anything we can build here in America even if we start right now."*

*Marnati: "Where I work, Kaiser Steel in Fontana, it's one of the more modern mills in America. The big mill I visited in Japan is ahead in every way of anything we*

*have at Kaiser. We're way behind and I don't know why."*

*"You, Mr. Petris, worked in the Bethlehem plant in Seattle. How would you describe the Japanese way of making steel with what you experienced as a worker and now as a union director?"*

*Petris: "Whatever else, the biggest single difference is the kind of engineering, plant technology, the size of the blast furnaces and the computerized processes that they employ compared with what I was used to working with and what I see here in America today. They must pour far more money into the steel business than our American companies do. I don't see how we can compete with such a modern steel complex with our worn-out facilities."*

*"Are you saying that they make steel at a lower unit cost than we do?"*

*Petris: "I'm not an economist, but when I see a*

### Md. Rep.: Build Counterpole for "Era of Prosperity"

*Maryland legislative delegate Casper Taylor (D-Allegheny-Washington counties) released a press statement on June 12 calling for the formation of a progress oriented counterpole to "maximize the thrust of Maryland's economic and industrial development."*

*Taylor cosponsored, with the U.S. Labor Party, a resolution calling on the federal government to expand the Export-Import Bank and increase the production of nuclear energy (HJR-95), which passed the Maryland legislature and was signed in May by Governor Lee. Since this time, Delegate Taylor has emerged in Maryland as a leading spokesman on energy and economic policy.*

*In the press release reprinted below, Delegate Taylor urges the legislature to work with private sector leadership in energy and economic policy, including cabinet-level participation by labor, industry, and energy experts like the Fusion Energy Foundation.*

*"I see these three steps as necessary to the implementation of Governor Lee's Five Part Strategy for Economic Development. For success, the executive Branch, the legislative branch and private sector leadership must work together."*

*Step one is a proposal to President Hoyer and Speaker Briscoe that a conference on "Energy, Industrial Development and Environment" be held for the new legislature prior to the 1979 session. "The legislature must be exposed to private sector leaders in industry, energy and environmental programs in order to properly legislate for a future of sound growth."*

*Step two is a proposal to the Department of Economic and Community Development regarding the cabinet-level council on the economy. In a letter to Secretary Cahan Delegate Taylor said "I would hope that those executive-branch leaders involved in economic development, environment, energy and transportation will be joined in a cabinet-level council by pro-*

*portionate representatives of the Legislature and a representative of the Chamber of Commerce, the AFL-CIO, The Metro Center, the Fusion Energy Foundation, the Greater Baltimore Committee and the Regional Planning Council." Delegate Taylor argues that the private sector and the legislature must be a part of the economic effort from "the top down" if Maryland is to pull together all of its talents and resources.*

*Step three is a proposal to President Hoyer and Speaker Briscoe that the scope of the Joint Committee on Energy be expanded. Delegate Taylor states "from my experience as a member of the Energy Committee I see an opportunity for the legislature to address the issue of energy in a broader context. When the committee dealt with HB1164 (the air quality control standards bill) it was dealing with energy in a context involving environment, and economic/industrial development. The experience made us aware that energy legislation necessarily has major impact on economic development, the economy in general and the environment. The technical and scientific community must be a part of this legislative effort. Since the committee combines both Senate and House members as a standing unit, its mandate should be enlarged to the "Joint Committee on Energy and Development."*

*Governor Lee acted correctly in signing HB1164 relaxing air quality standards to match the federal standards. He also acted correctly in proposing the Five Part Strategy for Economic Development. It has the potential for creating a new era of sound growth and prosperity in Maryland. "In my judgment, the above three steps are necessary to unify all branches of state government with the private sector to insure our success in expanding industry and jobs, and enlarging the tax base so the individual tax burden is reduced."*

straight-line system of production from the self-contained harbor, where the basic ingredients arrive from literally thousands of miles away, to the final product shipments by Japanese-owned freighters, it tells me that they haven't missed a single trick in increasing their productivity."

*"Is it all just more modern technology or does labor work harder in Japan?"*

**Marnati:** "Our workers at Kaiser work just as hard and maybe are even more adept but we just don't have the wonder tools of technology they use in Japan. There is no doubt that they rely on machines far more than on human effort."

**Petris:** "Let me add. For instance, the older works of Keihin, which is now being replaced by the new wonder-mill on the man-made island, used to have 18,000 workers. The new mills will employ less than 9,000 and put out more steel. That's at least a 50 per cent reduction in manpower."

*"But it's been said that Japan steel workers have a full employment guarantee?"*

**Marnati:** "They get them to retire earlier than we do here. I think at 55 you have to retire in Japan. They also spread the workers around to other industries. In the last couple of years, the number of steelworkers went down in Japan. They are having somewhat of a depression there, too. They use attrition as a factor for maintaining the level of employment. Somewhat like we do in this country. The only difference is that their government plays a bigger part in the industrial process."

*"What about the government of Japan, does it play a more dominant role in the industrial development and in labor relations than ours does?"*

**Petris:** "It's very difficult to compare the two systems but it's obvious that the Japanese government acts differently towards industry and labor than ours does. Many of the benefits the workers receive, for instance, come from direct government programs. Far more than in this country, the Japanese government assists industry and encourages growth and development. But Japan's government probably has a bigger voice in decision-making than our industry would allow. As for labor relations, the Japanese unions have been doing quite well for their members and maybe are less dictated to by government than we are here with such laws as the Taft-Hartley."

**Marnati:** "The unions are different there. They have several unions in a single steel plant. I didn't learn too much about their strikes but I understand that the steel workers protest in a different way than we do. They get the message across to management by wearing a red cloth around their forehead during breaks. That just wouldn't get any attention from Kaiser management."

*"Did you feel that there was a spirit of competition between the Japanese steel workers and yourself, the American workers?"*

**Petris:** "Not at all. They want to maintain a close friendly relationship with our union and they do. The problem of trade is something that can't be resolved by the unions. That's something our industry and government must address itself to."

*"But if they can produce high quality steel at a lower*

*cost than we can why won't they soon get a bigger part of our market and cause more job losses here at home?"*

**Petris:** "I feel we can match their technology if we start pouring some of the capital into steel making rather than into some of the other side businesses our domestic steel companies have been going into. We may need some help from the government in form of loans, but once we modernize our mills we will have a competitive advantage over Japan, and, for that matter, over any other nation as far as steel making goes."

"We will also need to concentrate on exports just as Japan does now. For that reason and because we import much of our resources from abroad, we need an American merchant marine fleet. We gave up that advantage years ago and we have lost as a result the advantage Japan now enjoys with its efficient cargo hauling. When we do catch up with the rest of the modern steel-producing nations, however, we may have a new problem on our hands."

*"What problem is that?"*

**Petris:** "Obviously a more technologically advanced industry means more automation and less workers per unit of production. I believe we can match the growth in technology with a full employment economy but it will take a different attitude on the part of our industry and our government."

**Marnati:** "The Japanese workers have almost caught up with us on wages and benefits if we add everything together — what they get from their government, from their company. They have such things as family allowances, housing grants, and others. They do pretty well. They work about the same total hours as we do and have a lot of paid time off. I don't think it's the wage or benefit differences that makes them able to sell for less on the American market."

*"Is it your opinion that Japan will continue to automate even more and will be able to outproduce even our best effort?"*

**Petris:** "Well, they've done wonders but there are limits to any growth potential and certainly to theirs. One big one, in my opinion, is energy. They import almost every bit of their energy and it's very costly to them. By automating their steel making and having industry run by computers, Japan is substituting energy, which it doesn't have a lot of, for labor, which it has plenty of. The equation is already strained. Unless I see things upside down, Japan is far more vulnerable to any energy crises than even we are. What goes for energy also goes for natural resources needed to make steel. We are in a better position to maintain our competitive advantage."

*"It is often said that the Japanese don't have the rigid safety laws or the tight pollution requirements that we have and that those are big savings for their steel industry as compared with ours."*

**Marnati:** "That's a myth. The mills are newer in Japan and they are far, far cleaner than ours. As for pollution, they have us beat a hundred times over. They use more efficient ways of collecting the dust, smoke, and they quench their coke with a dry system that we don't have. Believe me, they have cleaned up their workplace, inside and out in the mill we visited. As for safety, I don't have any figures but I can see that their

setup would be safer than under our more antiquated processes."

"Would you say that the Japanese are more advanced in living conditions than we are?"

*Marnati*: "You should try their traffic! It's nuts! It's brutal! They seem to eat and dress well, but they have slums like I've never seen in America. The average worker at Kaiser lives in a palace compared with the small boxes the Japanese workers live in. They have a lot of people and very little space; that makes a difference. Also, we here have a different standard that must still be the greatest in the world."

## U.S. Steelworkers Meet America — In Japan

The most striking feature of the USWA leaders' reaction to Japan's advanced steel-making technology is that it is exactly the reaction that Japanese had when they visited the United States and Western Europe for the first time during the 1850s. Then, the Japanese saw buildings more than one story tall, machinery, railroads, and heavy industry, including the rapidly expanding American steel industry. They went back to Japan determined to create at home what they saw in the U.S.

They succeeded. Consciously using the ideas of Alexander Hamilton and Lincoln's advisor Henry Carey, Japan transformed itself within 100 years from a feudal backwater into the third most powerful economy in the world. What the Steelworker leaders were impressed by in Japan was the American System, which Japan adopted from this country in the middle of the 19th century.

The USWA were most impressed with Japan's technology, and for good reason. Japan's oldest steel plant was built in 1962, unlike the U.S. where many plants are 30-60 years old. Embodying the latest techniques, the furnaces are much larger than those in the U.S., providing for economies of scale. Japanese mills can produce steel using 30 percent less iron ore and coking coal per ton — Japan's answer to the zero growthers' "limits to resources" arguments.

Thus, despite a marginally lower living standard, the Japanese steelworker can produce more steel per manhour than the U.S. workers. This is not because he sweats more, but because he has been given the tools to do the job. Most amazingly, despite their huge investment, Japan now wants to shift steel making for its economy into the developing countries so that it can move on to even more skilled industries, e.g., computers and nuclear reactors.

### *MITI's Role*

Protectionists in the U.S. have charged that Japan's government and banks subsidize its exports, thus creating unfair competition with industries that produce under "free enterprise." That charge distorts something which is quite real: Japan's postwar miracle was created by a dirigist cooperation of industry, finance, and government — characterized by government oversight of credit flows to industry — and could not have occurred without it. Without that Hamiltonian dirigism,

*Petris*: "For a nation that came out of a devastating war and one with very limited natural resources, Japan is a modern wonder of the world. We, of course, helped it develop. We have considerably more advantages. We must get going right now so that we can make even greater progress. I view the Japanese experience as a challenge to America and not as a threat. After all, the world needs the genius of both nations. Once we achieve fair trade and get some new fresh thinking from our industry and government moguls, we'll regain our share of the domestic and world markets."

Japan today would be an economic wreck — something like the Isle of Britain. It is no accident that "British disease" is an epithet commonly used in Japanese government documents.

Following World War II, Japan's Ministry of International Trade and Industry (MITI), led by men of the Hamiltonian tradition in Japan, targeted steel, auto, and electric power as the strategic industries to be developed as the key to postwar recovery. While some Americans wanted Japan to concentrate on textile exports, Japan viewed expansion of its textile industry as only a temporary stage on the road to more skilled industry. Low-interest government- and partially-government-backed bank loans were provided to the steel, auto, and energy sectors. As these industries grew sufficiently to "stand on their own feet," the locus of special efforts moved on to the new frontier industries. MITI set up joint public-private development corporations for nuclear power and petroleum exploration, among others. At that point the only "subsidy" established industries such as steel received was the knowledge that the government's continued dirigist policy would produce accelerating 18 percent-plus economic growth rates, ensuring a market for their products. This encouraged high capital investment by industry — leading to capital formation rates of 30 percent of GNP.

Besides the government, frontier industries are sponsored by private banks, particularly the Industrial Bank of Japan (IBJ), founded in the 1890s on the model of the anti-Rothschild French bank, the Credit Mobilier. The computers industry has been especially supported in recent years.

The Japanese dirigists have always recognized that the industrialization of all of Asia was integral to Japan's continued development. A business advisory group to MITI called the Industrial Structure Council — whose members include the chairman of Nippon Steel — pointed out in 1971 that Japan's ability to move to a fusion power-based economy was dependent on a global division of labor which required the industrialization of the developing countries. Now the government and banks like the IBJ are promoting export of whole factories to the developing countries. They hope to get U.S. partnership in this venture.

# Tax Revolt: Politics Of Depression On A Dead-End Street

None of the currently popular analyses of the spring primaries and referendum returns in the U.S. comprehends the actual basis of the deep anger which observers see the U.S. electorate expressing. In particular, those pundits and politicians demagogically

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reacting to the two to one victory of California's property tax reduction measure, Proposition 13, as a second American Revolution are as wildly out of touch with reality as those who see a "conservative tide" sweeping the nation.

In fact the "revolt" in American voting booths is a repudiation of the "post-industrial society" thesis and its inevitable result, a decline in general living standards, now perceived by broad sections of the electorate.

Traces of this were evident in recent Republican Party primary elections, for those who know how to read them. For example, California Attorney General Evelle Younger, generally considered a "moderate" Republican and identified in his campaign for the gubernatorial nomination as a strong proponent of nuclear power, beat a half-dozen other candidates, including several who made support for Proposition 13 the keystone of their campaigns. California Governor Jerry Brown has made opposition to nuclear power a primary feature of his term in office.

In New Jersey, the victory of Republican Jeffrey Bell, a former aide to Ronald Reagan, over incumbent Senator Clifford Case, was perhaps more attributable to Case's reliance on televised endorsements by "post-industrial" advocate Henry Kissinger and a subsequent small turnout of registered Republicans than to the appeal of tax-cut advocate Bell. The victory of well-publicized basketball star Bill Bradley in the Democratic Senatorial primary against the man fielded by the state party organization of Governor Brendan Byrne can similarly be traced to Byrne's identification with "fiscal austerity" politics.

Recent Gallup and Harris polls have shown that the majority of the electorate does not want the massive cuts in basic services of industrial society which so many have attempted to read into the Proposition 13 election returns. A Gallup Poll cited by New York's United Federation of Teachers chief Albert Shanker shows 83 percent of the population thinks that too little or barely enough is being spent on fire protection; 77 percent too little on libraries and sanitation services; 73 percent too little for parks and recreation; 59 percent too little on public hospitals; 63 percent too little on schools; and 47 percent who think public welfare programs should be maintained and improved. Similarly, the Harris Poll reported that even among voters backing Proposition 13, 60 percent would oppose such measures if it meant cuts in

education, police and fire protection, sanitation, and other infrastructural services.

Neither has the tax revolt rhetoric obscured the fact that in both major parties, it has been perceived that certain forces are bent on using the tax issue as an attack on the institution of government itself. Conservative Republicans are being advised by central policy coordinating mechanisms in the party to stick with the traditional party battlecry of less government spending, rather than promote "tax revolt" hysteria. Leading liberal Democratic spokesmen, including Sen. George McGovern, have strongly criticized those who say "that government cannot solve our problems...define our vision...eliminate poverty...or reduce inflation."

But the political maneuvering in both parties in response to Proposition 13 shows the present bankruptcy of traditional party political recipes in response to the economic crisis attendant upon the decline of American industrial strength.

Senator Ted Kennedy, billed by Americans for Democratic Action leader Joseph Rauh at an ADA conference addressed by McGovern as "the only hope" for liberals opposing Carter in 1980, told the National Conference of Mayors annual meeting in Atlanta last week that "Proposition 13 has awakened many in Washington, just as the farmers at Concord Bridge did 200 years ago when they fired the shot heard round the world. No person in public life — no president, secretary, governor or mayor — can ignore this message and the outraged feelings of the people...Those in leadership positions must cut where there is fat." Said one observer, "He sounded like George Wallace." Said another, "If Teddy's out to cut fat, he should rent a guillotine."

On the other hand, McGovern, Rauh and the ADA have been promoting labor-intensive jobs programs, which the Carter Administration is already committed to as the solution to declining living standards. At the mayors conference, Sam Brown, a one time leader of the "antiwar movement" and now chairman of Carter's ACTION volunteer environmentalist and community action apparatus, ordered participants to "think small," enlist volunteers, and "stop spending dollars and start spending more energies."

Vice-President Walter Mondale, speaking on behalf of President Carter, pointed to legislation for an "urban development bank" which would dole out \$2 billion for "private business" economic development in "targeted" urban areas on the labor-intensive model as the solution to the mayors' problems. Like Kennedy, he was coolly received.

Meanwhile, the Republicans, whose basic 1978 campaign documents promote a major military defense buildup and a three year, 30 percent corporate and income tax reduction simultaneously, are hardly more programmatically credible to the population.

— Don Baier

# Int'l Currency Reform To Be Wielded As Development Instrument

The EEC-Japan-OPEC "Financial Grand Design" mobilization of the world dollar surplus for global industrial development — to be the topic of both the July 6-7 Bremen Common Market meeting and the July 16-17 Bonn heads of state Economic Summit — has the potential to reorient the entire postwar monetary structure of the West along American System Hamiltonian lines.

As reported in part above, the basic elements of this Financial Grand Design include:

\*Transfer of Japanese, West German, French, and Saudi Arabian public and private dollar resources out of London and Singapore and into Frankfurt and Luxembourg.

\*The deployment of these funds under relevant governments' guarantee into export projects in the East Bloc and Third World.

\*The negotiation on this basis by West Germany and France at Bremen of a European monetary system based on reintegrating the French franc and the Italian lira into the Deutschemerk-dominated European snake through the only sound means — dirigist industrial credit programs in France and Italy with East German backing that will strengthen the "fundamentals" of those economies to put their currencies in league with the mark.

\*The negotiation then of a stable link between the continental European deutschemerk bloc, the robust Japanese yen, and a U.S. dollar, thoroughly revitalized by the huge export flows generated by the East-West, North-South development projects.

\*The restructuring on this basis of Third World debt, as proposed by Herman Abs of the Deutsche Bank, to provide a sound international financial market based on long-term loans practically repayable by virtue of the surplus-creating power of the high-technology industrial programs in underdeveloped countries.

As Bundesbank Chairman Otmar Emminger said June 20, this type of monetary stability "is essential for stable relationships with the East bloc," and forms the only basis for world peace.

It is also, as Alain Vernay points out below in *Le Figaro*, in total opposition to the City of London form of profit by "disorderly currency fluctuations" and programs for petrodollar recycling through the London Eurodollar markets now widely circulated through the Organization for Economic Cooperation and Development. The OECD's Development Advisory Committee, so far the official US-EEC-Japan government body on the LDCs, is presently circulating a plan for a \$10 billion fund to be solicited by the OECD from the Arabs for "labor-intensive agricultural projects modeled on those of the World Bank," as a source close to London's Henry Kissinger put it after the OECD's June 12 meeting.

Outside of picks and shovels, such a plan would neither step up U.S. or European exports, nor stabilize any currency, nor promote any East-West relations except confrontation in the Third World over limited raw material resources.

The Financial Grand Design, however — largely modeled upon the 1976 Private International Development Bank proposals made by U.S. Labor Party Chairman Lyndon H. LaRouche — would, with the political backing of some of the West's strongest governments make the proposed East-West and North-South high-technology development projects into the most high-profit areas of the world economy, sucking in more and more of the world dollar surplus. In this way, the East Bloc and developing sector will receive such capital transfusions that their level of industrial productivity would far and away produce surpluses — and consumer power to buy even more from the OECD. This plan thus has the ability to put the entire world back on a sound payment basis.

## *London at Rope's End*

Vernay also writes at some length that if anyone has a stake in sabotaging the new integration, it is the British, as they did to early 1970s proposals along these lines by Georges Pompidou of France. It should be noted that those proposals were elaborated in cooperation with Nixon Administration elements in the U.S. to save the dollar from London-based market attacks by redeploying the "dollar overhang" into Third World, Mideastern, and Comecon energy and industrial development.

As a financial-political entity, the U.K. is worse off than it was seven-odd years ago, having played all its cards of North Sea bluff, petrodollar grab attempts, and so forth. Its current battle plan for outright leeching of the U.S. banking system is openly described as a function of terminal weakness, not strength, in London itself. The financial pounding surveyed in detail in the last issue of *Executive Intelligence Review* (June 20-26, No. 24, Vol. V) continued this past week, as the *Sunday Telegraph* projected June 18 that the government will force the British banks to absorb public "gilts" securities now that foreign demand has vanished. As of June 22, the gilts' prices were steadily falling, the pound sterling weaker at \$1.85, and equities down another 18 points from the depressed June 16 level. This is not a function of a sudden improvement in the nasal capacities of international market forces vis-à-vis a decaying economy; specific continental traders and investors are pulling a specific, calibrated bear raid against Britain.

### *Monetary Strategy*

Several developments illustrate the direction of the Franco-German plans for the July meetings.

First, Schmidt and Bundesbank president Otmar Emminger once more flatly rejected reflation — Schmidt most recently in a June 21 speech to his Social Democratic Party caucus, attacking not only the group of five federal economic advisors who had called for a tax-cut supplement to their other reflationary suggestions, but also his coalition partner, the Free Democrats, for igniting policy “brushfires” — referring to the FDP’s organizing a fullblown tax revolt which they hope will appeal to the substantial number of blockheads in the opposition Christian Democracy.

Emminger confirmed the refusal in a June 20 speech to a top-level gathering of national leaders commemorating the anniversary of the 1948 currency reform. Emminger focused on the need for West German international leadership to promote genuine growth — a government-led, that is to say dirigistic, initiative. Foreign Minister Hans-Dietrich Genscher had fleshed this out June 15 when he shocked the Fabian-led session of the Organization for Cooperation and Development in Paris by announcing that the OECD’s proposed \$10 billion aid fund for the Third World is fine with the Schmidt government — provided it is used for “an overall expansion of the world economy.” He called for “manufacturing industry in the Third World,” with “government guarantees” to actively guide private investment there, and “Comecon contribution to this process.”

### *“Jap-Bashing” Continues*

Foreign exchange news, however, has been dominated by near-daily reports of the Japanese yen reaching another postwar record high in relation to the dollar — on June 21, it was 208 to the dollar, almost a 50 percent appreciation since 1971. This is an operation against the Japanese, who nevertheless continue to run giant trade surpluses despite the upvaluation, testifying to the advantages of high-technology, modern operations. And the means which the Japanese Ministry of Trade and Industry has chosen to offset the surplus will further expand this capacity, namely a special import program, composed not only of oil and industrial raw materials stockpiles but 3-4,000 tons of enriched uranium.

Meanwhile, the central bank has intervened only moderately, to smooth outright chaos in the markets; its chief, Morinaga, cryptically predicted an end to the yen’s skyrocketing in the near future. Supposedly, the Japanese do want to appear in Bonn with the double onus — in Treasury Secretary Blumenthal’s eyes — of running what is expected to be their biggest export surplus ever and having defended the dollar.

At present, however, the British-led foreign-bank rush to trade in dollars and buy yen is compelling Japanese bank and traders to dump some of their own dollar holdings as a speculative hedge, further fueling the process and mucking up trade. Most important in terms of the European monetary proposals for the summit is the effort by West German bank leaders to relax current West German restrictions on yen operations which currently obstruct Arabs and other large yen holders

from using these reserves to buy West German goods and obstructs the Japanese, as noted above, from full co-financing through Frankfurt of joint development lending.

### **Bundesbank: Reflation Would Jeopardize East-West Deals**

*Journal of Commerce*, June 21:

FRANKFURT—West Germany celebrated on Tuesday the 30th anniversary of the deutsche mark and its remarkable ascent to one of the hardest currencies in the world with an impressive demonstration against all and any short-run measures that would stimulate growth at the price of higher inflation. . . . the policy of price stability and free market principles were extolled by all speakers as the only success-promising approach towards worldwide economic recovery. . . . Dr. Otmar Emminger, the Bundesbank president, pointed out that “our goal is a sustained and sound growth and the methods advocated abroad are not compatible with achieving it.” Since West Germany also has an international responsibility for stability, it must resist any efforts which would shake the European currency zone into an inflationary community. The success of the West European currency zone depends on and must be based on the policy of economic stability, Dr. Emminger said.

Dow-Jones wire service, June 20:

FRANKFURT—If West Germany makes economic compromises as supposed concessions to other nations they could lead the Western economy “slowly but surely into an inflationary swamp,” Otmar Emminger, President of the Bundesbank, said.

“That could also lead to conflicts with the Eastern economic system,” Emminger said at a ceremony commemorating the 30th anniversary of the currency reform which brought the deutsche mark into existence.

### **“The Franc, the Mark, and the Snake”**

*The following are excerpts of an article by Le Figaro economic specialist Alain Vernay, which appeared June 21, and refers to the meeting West German Chancellor Schmidt and French President Giscard d’Estaing scheduled for June 23.*

...If the talks between Valéry Giscard d’Estaing and Schmidt in Hambourg are fruitful, the Bremen (European Council — ed.) meeting could be that where the Nine will manage to agree on the choice of a mechanism to ensure more monetary stability in Europe, in conformity with the double goal of the European Councils which is, as the President of the Republic said in Copenhagen, “to reach a confederal organization of Europe as well as to bring a European contribution to the solution of world problems.”

...Does this optimism seem imprudent?...Let’s admit that Great Britain will do everything possible to prevent or delay a European monetary accord, for several reasons. Thanks to the remarkable cleverness of the City, England draws a good part of its invisible earnings

from disorderly currency fluctuations. Jim Callaghan is also thinking of reestablishing a special relationship with the United States even if America is not encouraging it; nothing pays off more for the party in power than to act brutal and if possible 'bestly' towards Europe, three months from the elections.

...But this doesn't mean one should fixate on the English obstacle: in the European monetary framework, there is no obstacle that could stand up to a full accord between Germany, France and the (EC) Commission...

The fundamental analysis of Giscard and the Chancellor is that Europe's delay in growth in relation to the U.S. and Japan, comes in great part from the disequilibrium of balance of payments and Community trade distortions resulting from the drop of the dollar which has pushed the mark upward, thus increasing the gap between it and numerous other currencies of the Community.

...A combination involving the weakest European currencies with the strongest in the snake zone would converge to brake the harmful appreciation of the DM and would be less costly, no matter what the price, than the direct and vain interventions to support the dollar.

For his part, Giscard would like the franc to as quickly as possible enter the path of a more constricting monetary cooperation...

(There are several models — ed.) The first consists of

extending the Community system of restricted variations in exchange rates, beyond the currencies of the snake which vary by a maximum 2.5 percent such that the others — francs firstly — vary in a coherent fashion with the snake, while having a greater margin of fluctuation.

Whatever form it takes on, this two-tier system has the inconvenience of eventually bringing into full light the vulnerability of the weaker currencies, and even providing a barometer for speculation.

The second model would extend the use of the European unit of account — based on a basket of currencies excluding the dollar — in such a way that it would serve for settlements among the central banks of the EEC. This would limit the destabilizing impact of dollar fluctuations. In addition, it would have a distinct effect of getting Europe into gear: having a possible need for units of account at any time, the central banks of the EEC would come to maintain some in their reserves or place them within European cooperation funds — like the FECOM, whose means, in any case, should be increased.

It is possible that the President and the Chancellor would want to mix the two systems without reinforcing too much the role of the unit of account. This is what would bother the United States the most, by making possible on the far horizon the flourishing of a European currency....

# Senate Banking Hearings

## *A forum for Euromarketization of U.S. banking*

The June 21 Senate Banking Committee McIntyre subcommittee hearings on the International Banking Act of 1978 (HR-10899) provided a public forum for Federal Reserve Chairman G.W. Miller, Controller of the Currency John Heimann, Senators Thomas McIntyre (D-NH) and William Proxmire (D-Wisc) and the British

Wright Patman at the request of the Nixon Federal Reserve in December 1974, the purpose of which was — and still should be — to subject foreign banks operating in the United States to the same regulations imposed on U.S. banks. U.S. banks are currently prohibited under the McFadden Act from interstate banking — taking deposits in more than one state or "across state lines" — in order to protect the full development of regional banking and industry: prohibited from acquiring other large U.S. banks; and "national banks," effectively any large bank, must be chartered, insured, regulated by, and hold non-interest bearing reserves at the Federal Reserve.

### BANKING

banks led by Barclays International Ltd., to demand full deregulation of the U.S. banking system. In effect, they argued that not only should British banks taking over American banks be allowed the run of the U.S. without regulation, but an entire set of new expediting legislation is needed to put U.S. banking on a London free-for-all standard.

The deregulation drive was vigorously opposed, however, by Senator Adlai Stevenson II (D-Ill) and the Bankers Association for Foreign Trade (BAFT), representing a broad cross-section of U.S. industry and banking. The recent takeover of U.S. banks worth \$20 billion in assets by the British banks could spur "great concern in Congress," blocking the deregulation debate altogether, the financial press further noted June 19-21.

#### *The Real Issues Behind IBA*

The International Banking Act (IBA) itself is the 1978 version of a bill first introduced by the late Congressman

Foreign banks at present can and do operate free of any such regulations, and the 1974 International Banking Act proposed to regulate them on "equal footing" with U.S. banks — that is, to integrate them into the properly and safely structured American banking system.

Since his appointment as Federal Reserve Chairman, however, G.W. Miller has moved to turn the IBA into a legalization of the current state of total nonregulation of foreign banks — in effect encouraging U.S. banks to clamor for deregulation. When the 1978 IBA went to the House last April, Miller collaborated with House Banking Committee Chairman Reuss to water down the bill. They removed the crucial Section 5 prohibition on foreign banks interstate branch deposit-taking, as well as the requirement that large foreign banks' subsidiaries — such as Marine Midland will become of Hong Kong Shanghai Bank — need not be regulated by, or hold

reserves at, the Fed — or be insured by the Federal Deposit Insurance Corporation. (See *Journal of Commerce* editorial, below.)

The bill before the Senate June 21 thus represents a rubber stamp for the current anarchy, which merely imposes Fed regulation and FDIC insurance on the more insignificant branch and agency operations of foreign banks and lets them into every state. Miller has done this because he wants to rush the approval quickly through a somnolent Congress before it does an about-face in alarm at the huge influx of British takeovers. Because the states have encouraged the development of international banking in their leading cities, Congress has traditionally beaten back the requests for regulation which formerly came from the Fed, and Miller is counting on such an "antiregulation mood" to push the legislation through.

Far worse than the mere rubber-stamp being sought is the clamor for bringing the entire U.S. banking system down to the level of foreign bank regulation which dominated the hearings. Miller testified with a pro forma request for the reintroduction of bans on interstate banking for foreign banks — the same points he has already bargained away in the House, and knows will therefore not be taken seriously by the Senate. He was immediately asked by his collaborator McIntyre if the idea of rather deregulating U.S. banks was not a more "modern" approach. "That is a question to be studied on its own merits," Miller replied.

Controller Heimann followed Miller with a similar pro forma request for interstate bans on the bill "as long as U.S. banks" are so regulated — and then launched into a broadside on the need for a new legislative program to deregulate all U.S. banking. "Clearly domestic branching restrictions require reevaluation," he said, referring to U.S. banking law as "archaic" (excerpts below).

A more thorough proposal to "tear off" the regulatory protection of the entire U.S. interstate banking law was made by Miller ally and Federal Reserve Board member Philip Jackson to the Association of Alabama Bankers in May (excerpts below).

#### *U.S. Euromarket Legislation*

What Miller, Heimann, and the other banking "free-traders" are aiming at is seen in the legislation now on tap to "bring the Eurodollar market back home," as one banker said June 20 (see Chase interview, below). McIntyre is reported to be planning a series of bills to put into law board member Philip Jackson's proposal for fully liberalized interstate banking. For a start, McIntyre has already written S-20651, the Interstate Placement of Electronic Funds or Electronic Funds Transfer (EFT) bill, which would allow all banks to set up terminals in supermarkets and other stores nationwide to take deposits, cash checks, and pay bills.

Proxmire reportedly is working on a bill to require the Fed to pay interest on banks reserves held by it, thus undermining the basic purpose of the reserve system and limiting the possibility of control of monetary policy.

#### **"Bring the Eurodollar Market Back Home"**

*The following is an interview with the Washington Office of Chase Manhattan Bank on the implications of the International Banking Act debate on the broader question of deregulating U.S. banking.*

*Q: Do you support the International Banking Act as passed by the House in April?*

*A: It's a pretty good bill now; I'd say we do.*

*Q: But don't you object to Miller's compromise removal of the original Fed proposal to ban foreign banks from taking up the U.S. deposit base across state lines? The British are planning to take your U.S. corporate clients.*

*A: Why should we object? On the contrary, we wish we weren't stuck in New York. If the British banks want to try and take over the U.S. domestic deposit and lending market, God bless 'em, let them try—competition is the American way. We would like the right, too, to branch interstate. What is needed instead of more regulation for the foreign banks is less regulation for U.S. banks.*

*Q: And isn't the debate on the International Banking Act actually a forum for that kind of thinking?*

*A: Sure. What is underway in the near term is a massive review of banking legislation in this country by the regulatory agencies and Congress, and evolutionary general movement toward less banking regulations and toward open and free competition.*

*Q: By whom; and what other bills are there?*

*A: Well, Governor Jackson at the Fed is a real deregulator activist (see accompanying speech—ed.); Senator McIntyre, Senator Proxmire, Representative Reuss, Representative St. Germain all are working on bills. McIntyre has set an Electronic Funds Transfer bill (S-2065) next that would allow banks to take deposits and all other activities electronically across the country through machines in supermarkets and other shopping centers where you would cash your pay check and pay your grocery bill simultaneously. Proxmire has a bill to require the Fed to pay interest on reserves, which means the Fed would have to compete with the rest of the money market for funds. . . .*

*Q: Wouldn't that effectively undermine the reserve safety cushion for the U.S. banking system and lead to an unregulated system exactly like the Eurodollar market?*

*A: Yes, you're talking about bringing the Eurodollar market back home.*

#### **U.S. Controller Heimann: American Banking Regulations "Archaic"**

*Excerpted below is the testimony of U.S. Controller of the Currency John Heimann to the June 21 Senate Banking Hearings.*

. . . We are disturbed, however, by the illogic of foreign banks having powers in the U.S. which our own banks do

not have. . . . I do not think that the trend to greater penetration of banking in the U.S., recently accelerated by the large proposed acquisitions I have mentioned, makes the issue more significant—and highlights the structural inequity of interstate branching by foreign banks.

The central problem, of course, arises from the McFadden Act, which restricts branching for national banks and which is the product of another area in the economic and political history of this country. Clearly, domestic branching restrictions require reevaluation. We feel that an objective analysis could show that this archaic restriction frustrates the free flow of capital and perhaps even affects the economic growth of our nation.

#### **Fed Official:**

#### **Tear Down Artificial Banking Barriers**

*The following is an excerpt from remarks by Philip Jackson, member of the Board of Governors of the Federal Reserve, before the Alabama Bankers Association on May 11, 1978:*

Your business of banking is an excellent example of the consequences that we are experiencing from excessive regulation. . . . While any banker could agree with this statement and could give an extemporaneous speech on examples of overregulation today, I'm not sure as many would be able or willing to discuss how overregulation also means overprotection.

And overprotection is the second reason banking has not met its potential. Due to overprotection and a lack of competition in the banking industry, some bankers have lost sight of their purpose. . . .

As a result of both of these impediments, other financial intermediaries have sprung forward to meet the new needs of our society and to fill the gaps that the banking industry has left unserved. As the banking industry has become ossified and encrusted by ancient practices and counterproductive laws, others are finding ways to circumvent these restraints in order to meet the demands of the public. . . .

The result is that banks are, to a certain extent, protected by the freedom to fail as well as the freedom to compete and succeed.

I think it is time to tear down these artificial barriers into the banking industry and to open the borders of banking to any who wish to come or go. Banks, like all other business organizations in our country, should have the freedom to open up shop where the needs are greatest and the opportunities strongest. Not only should we allow state-wide branching by any bank organized within a state but we should also authorize interstate full-service operations for any bank authorized to do business in our country. . . .

Given the present phobia about unrestricted branching on the part of some bankers, I find it hard to understand how the House of Representatives could overwhelmingly pass, as it did, a bill to give foreign banks the authority to

branch across state lines. It seems to me inconsistent to have these foreign visitors enjoy privileges that we don't authorize for ourselves. Certainly we should have one rule apply to all who are striving to perform the same public function. If this legislation is adopted, we should then have another new law that gives all federally chartered banks the freedom to operate throughout the United States without restrictions. . . .

#### **Moving the London Euromarket to New York**

*This review of the status of the "Domestic International Banking Facility" or "Free Zone" of total nonregulation of banks for New York City proposed by Citibank appeared in the May 5, 1978 London Investors Chronicle.*

Too modest to think of their city as the Navel of the Universe, New Yorkers simply call it the World's Capital. Yet in international banking, the Big Apple has been consistently outperformed by London in the last decade. Offshore centres such as Singapore, Bahrain, the Bahamas and the Cayman Islands have further nibbled away at the remaining business, leaving New York trailing far behind.

Now some of the most important US banks want to see this change. Led by Citibank, a group including Chase Manhattan, Morgan Guaranty, Chemical and a number of others, has been pressing New York state authorities to amend existing laws so that the banks can engage in more business in New York. . . .

The banks' proposed solution, also favoured by Ms Muriel Siebert, New York State Superintendent of Banks, and Governor Hugh Carey, is to establish "domestic international banking facilities" (DIBFs) in New York. These would be free from regulations D and Q, and liable only for federal corporation tax (at present 48 per cent) . . .

Though Mr Miller, the new Fed chairman is said to be "receptive" (in private) to the DIBFs idea, no one is quite sure whether the Fed alone would have the authority to let DIBFs operate in New York, yet outside its province. Should Congress want to come in on the act, there is a danger that DIBFs could get the same never-never treatment as the International Banking bill.

## **British Banking Reorganization Of U.S. Opposed**

#### **Stevenson Aide Says "No Euromarkets in the U.S."**

*The following is an interview with an aide to Senator Adlai Stevenson (D-Ill.) during the International Banking Act hearings June 21.*

*Q. Are you aware of the danger that could be done to the U.S. banking system by the unregulated inflow of British bank takeovers here?*

*A. We have no problem with foreign banks coming in for*

productive purposes but, yes, that is not what the British banks are here for. They are here to take deposits and make loans to ameliorate their own foreign debt situation by moving into the U.S.

*Q: In other words they are promoting lax regulation here in the U.S. in general to bring the practices of the Euromarkets home to the U.S.?*

*A: That's right, and that's what we want to prevent.*

*Q: What are you doing with the International Banking Act on this?*

*A: We are discussing the possibility of proposing an amendment to the Act which would allow the authorization outside of a home state for foreign bank branches or agencies of only those types of deposits now available to U.S. banks' Edge Act corporations, which is to say that foreign banks would be unable to take domestic U.S. dollar deposits across state lines, but could accept foreign deposits for international use such as the promotion for example of the financing of U.S. exports. In that light and for the promotion of export financing and general improvement of the U.S. balance of payments we are also considering a general liberalization of Edge Act corporations for both U.S. and foreign banks to help the U.S. enhance its international financing role.*

#### **Miller Fed Is "Compromising" On British Banking Invasion**

*The June 19, 1978 Journal of Commerce editorial, "Congress and the Foreign Banks," pointed out that G.W. Miller has watered down the Nixon Fed's International Banking Act to get the legislation through before Congress is alarmed by the British invasion. Here, excerpts:*

It wouldn't be surprising if the latent protectionist tendencies of certain congressmen and bankers were touched off by the hyperactivity of the British banks in America. . . .

It certainly looked like a plot. But the British banks have good reasons for acting now. The dollar may well go up and the equity prices of the various banks may gain. There may not be as many bargains around in the future. Standard Chartered is more than anxious to reduce its exposure in Africa and all the banks would like to establish a solid dollar base if trouble develops again in the Euromarkets.

And there is, of course, the danger that Congress, which has been rather mellow about the foreign banks, might clamp down in the future. Ironically, the British banks in their rush to establish in the U.S. market could touch off what they sought to avoid—a harsh response from Congress. . . .

Chairman William Miller has already backed away, however, from his predecessor's position on multistate activities for foreign banks. Former Chairman Arthur Burns would have allowed agencies of foreign banks to establish in various states if they limited their activities to international banking.

The Federal Reserve last week, conscious that the Senate was unlikely to be more restrictive on foreign

bank branching than the House, offered to compromise further. . . .

But the Federal Reserve wants some sort of action while the mood is still good. At the rate things are going, Congress could turn mighty suspicious. The legislation when it emerges might not be much, but it is something.

#### **Protect the American Banking System, Says Administration Official**

*These are excerpts from "Foreign Bank Influx: Hearings on Today," by Judith Miller, on the June 21 Senate Banking hearings, which appeared in the June 21 New York Times:*

"The protection of American deposits and the safety and soundness of the nation's banking system is a cornerstone of our economy," said a high Administration official. "Buying a bank is not the equivalent of buying an American company, and the reaction from Congress, if the trend continues, is bound to be pronounced. . . ."

Although bankers and financial analysts are hesitant to be quoted by name or institutional affiliation, they express concern about the implications of recent purchases and the probability that such acquisitions will continue. Some bankers expressed worry about increasing competition in commercial and industrial loans American banks face from foreign institutions here. . . .

Not everyone, of course, shares the worries. Henry C. Wallich, a member of the Board of Governors of the Federal Reserve, for example, pointed out in an interview that American bank presence abroad — assets total about \$200 billion — dwarfed the \$66 billion foreign bank presence here. Americans, he said, would not risk retaliation by foreign nations.

Moreover, he said that such a reaction would not be consistent with the American philosophy of free trade and economic competition and that the purchase of American banks by foreigners would actually strengthen the dollar and attract foreign capital here.

"The welcome mat is out for responsible foreign banks," Mr. Wallich said. . . .

Some of the regulatory questions raised by the increasing foreign presence include: . . .

To what extent should foreign parent banks be able through their American extensions to use the discount window of the Federal Reserve, taking out low-cost loans that might possibly be used, for example, to rescue a troubled parent that has encountered difficulties in the Eurodollar market?

The banking industry, Congress and the regulators are deeply split over the response to those questions. . . .

#### **Bankers Association for Foreign Trade Asks Foreign Bank Regulation**

*The following is taken from the testimony by Robert Palmer, President of the Bankers Association for Foreign Trade and executive vice president of the Philadelphia National Bank, at the Senate hearings June 21:*

As the American banking community has expanded

into foreign financial markets it has not asked for nor received preferential treatment. Our aim in our markets has been mutual nondiscrimination among us and foreign banks. . . .

Since 1973 this association has worked actively for such (equal treatment) legislation. Generally our position has been similar to that of the Federal Reserve Board and

our efforts have been closely aligned. We were pleased when legislation incorporating these principles was enacted by the House in 1976 and was again reported out of the House Banking Committee in February. However, the legislation later passed by the House and before you today was altered significantly on the House floor by the omission of the amendment of Section V, thereby

## Moratorium On Foreign Takeovers

*The following is a shortened version of a statement issued by the National Executive Committee of the U.S. Labor Party on June 20. Nationally distributed prior to the June 21 hearings on the International Banking Act of 1978 before Senator McIntyre's Financial Institutions Subcommittee of the Senate Banking Committee, the full text appeared in the U.S. Labor Party's newspaper, New Solidarity, June 23. The "USLP Non-Partisan Action Program" referred to in the statement is reprinted in this week's Special Report.*

Congress must immediately enact a one-year moratorium on foreign takeovers of American financial institutions, pending the passage of legislation securing the safety of the American credit system. The last few week's spate of British takeovers of American banks, which shows only the tip of the iceberg of the influx, represents an attempt by British financial circles to grab a decisive share of American credit and hence political control in the United States. This distress sale must be halted to give Congress time to enact broader measures to ensure the continued flow of cheap credit for American industry, agriculture, and foreign trade. The proposed moratorium would apply only to foreign purchases of existing banking and other financial institutions, not to foreign banks' opening of branches, agencies, and representative facilities.

These British financial interests are collaborating with Federal Reserve Chairman G. William Miller, Controller of the Currency John Heimann, and other officials, to transform the American credit system into a free-for-all resembling the speculation-oriented Eurodollar market abroad, to London's advantage and the severe detriment of the American economy.

The U.S. Labor Party is in possession of evidence that G. William Miller is in collusion with British banks to select appropriate takeover victims, on the pretext of targetting "weak banks" in need of "injections of capital." Furthermore, the Labor Party possesses evidence that John Heimann, in malfeasance of the Controller's duty under law, is suppressing evidence that the British institutions concerned are wildcatting in the United States in an attempt to hedge against their own fiduciary weakness. Three significant takeovers have occurred in the last two months—Hong Kong and Shanghai Bank's purchase of Marine Midland, National

Westminster's purchase of National Bank of North America, and Standard and Chartered's purchase of Union Bank of California. By themselves, these takeovers have placed control of almost \$20 billion in American banking assets in British hands. Controller John Heimann has stated publically that six more such transactions are currently in preparation.

Miller's objective is three-fold:

1) The British equity-buying spree, which includes operations of British bank holding companies across state lines, will prepare the way for elimination of all controls against interstate banking.

2) The explosion of foreign banking operations in the United States tends to merge the American credit system with the unregulated offshore dollar, or "Eurodollar" market.

3) The ultimate regulation of American banks through supranational entities through the International Monetary Fund. Bank of England Governor Gordon Richardson publicly demanded, in a speech in Berne, Switzerland, June 13, that the IMF have powers to review virtually all international bank lending operations. Miller proposed the same, including IMF powers to impose reserve requirements; limit the total size of bank operations; impose conditionality on borrowers; and set interest charges, to the IMF's Interim Committee, according to evidence in possession of the U.S. Labor Party.

Interstate banking would be a disaster. Doubters should inspect the Canadian banking system, where the domination of five money-center banks channels most national savings into Eurodollar-oriented operations, and starves the regions for credits needed for economic development. Such centralization of credit in a few money centers would threaten the political balance of the country.

The Labor Party does not oppose the expansion of foreign banking in the United States through normal means, as a benefit to American international trade. But Congress must call a halt to British scavenging. The country requires time to put into effect measures of the type USLP National Chairman Lyndon H. LaRouche, Jr. outlined in the "U.S. Labor Party Nonpartisan Action Program for 1978": a two-tier credit system favoring long-term industrial investment and development of new technologies, and a tax structure favoring investment in new plant and equipment and household incomes rather than speculation.

permitting foreign banks to operate a full banking business, including the taking of deposits on a multistate basis denied to U.S. banks. Accordingly, HR 10899 does not enjoy the majority support of the Association's voting members.

I do want to advise the Committee that there is a small

group of our membership, domiciled principally in New York, and accounting for a significant share of this country's international banking activities, which takes the position that the present regulatory environment is satisfactory and therefore requires no new legislation at this time.

## 'Rebuild New York — To Expand U.S. Trade'

*U.S. Labor Party conference poses a development strategy*

Political and industrial leaders joined with members of the U.S. Labor Party for a conference on "Rebuilding New York to Expand International Trade" in New York City June 15. Under consideration was expansion of U.S. trade as a solution for expanding revenues to keep New

*research and development capabilities of small private corporations in the U.S.*

... Concern for the safe storage of high level nuclear waste through its long half life periods, has created resistance to the construction of the very much needed nuclear fission power reactors. If the elimination of high level nuclear waste will halt resistance to the use of nuclear energy then it is practical that high level nuclear waste be separated from spent nuclear fuel and then be eliminated by the spallation process. Favorable economics for doing this will result from (1) Elimination of long term storage and attendant costs; (2) Production of electricity from the byproduct, neutron energy. . . .

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### THE CITIES

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York City intact. The conference was attended by representatives from the U.S. Department of Commerce, Public Service Gas and Electric of New Jersey, Edison Electric Institute, Chemtree Corporation, Underwood and Jordan, a public relations firm, the Yonkers, N.Y. City Council, and area scientists and students.

The day-long agenda touched various aspects of a development strategy for New York: an expansion of trade, increase of energy production, necessary credit arrangements, and the historical forerunners of such a factional position. Even while the conference considered this development strategy, Senator William Proxmire (D-Wisc.) was demanding that New York City cut out more services to prove its "commitment to austerity."

The battle over New York City's financial situation and its bankruptcy represents far more than the foremost paradigm of the fate of U.S. cities. Proxmire's attempts to force New York's major commercial banks to put more than 30 percent of their assets into New York City directly threaten the entire national banking system.

The U.S. Labor Party is uniquely qualified to hold such a conference; since its inception in 1966 the Labor Party has campaigned for more city services to be financed at the expense of speculation in nonproductive investments and debt service. In 1973 and 1977 U.S. Labor Party mayoral candidates campaigned on a program of rebuilding the city in opposition to Municipal Assistance Corporation austerity.

### Eliminate High Level Nuclear Waste

*William Cornelius Hall, president of Chemtree Corporation, stressed the importance of upgrading the*

### Adapting U.S. Technology

*A discussion between Robert Simpson, Assistant to Chairman of the New York State Public Service Commission, William Hall, president of Chemtree Corporation, Jon Gilbertson, Nuclear Engineering, Fusion Energy Foundation and Paul Gallagher, centered on developing the Third World.*

*Simpson:* One of the speakers spoke about exporting nuclear plants. Where is the greatest demand for nuclear development?

*Gallagher:* Well, if you mean who has the money to buy nuclear plants immediately, we are talking about the Arab sector, the Shah of Iran, Mexico and the Latin American governments. But in the broader sense, we also mean countries like Zaire, which has just moved to create a fund for such purchases by concentrating its mining revenues into its own national bank. Demand is there in the form of *politically* expressed demand around the globe. We have to create the necessary credit arrangements.

*Simpson:* I am concerned about nuclear investment in the developing countries. To the extent that we don't have control over balanced development, we may be creating a one-time trade relationship. . . .

*Gallagher:* If the U.S. were committing its resources to development, it would have the greatest influence on the

## The Other Program For New York: Shrink, Cut, Move Out

*Sen. William Proxmire has this to say about New York City in an interview in the June 18 New York Times:*

*Proxmire:* It's fascinating that we've had a discussion so long without mentioning the taxpayer revolt, the Jarvis-Gann Amendment. That was not just a revolt against the property tax. It was also a revolt against federal spending as well as state and local spending. So I think we're going to have to do much less for the cities; and what we do use is going to have to be spent to provide assistance to those who cannot help themselves . . .

*Q: What if it is impossible to find jobs for the poor where they live?*

*Proxmire:* Well, I see no objection — That's why I say the cities may be smaller. It may be a good idea to encourage them to move out.

*Q: How are we going to deal with cities which are going to decrease in size and therefore need smaller workforces, but are stuck with big fixed expenses?*

*Proxmire:* No. You don't do it the way we did with respect to New York City. You don't do it by saying "We'll help you out . . ." The tough, hard necessities are going to require them to do a better job. That kind of thing wonderfully concentrates the mind, they say. They'll have to get along with fewer civil servants, fewer services . . .

industrial and agricultural programs. They have the capital to do this. Their oil is going to run out in 15-20 years. Reactors could be combined with gas turbines. That is already a state of the art system.

*Gallagher:* The core of any development program is the nuplex concept — the ability to bring to bear the cheapest and densest flow of energy. An underdeveloped country is buying the capability to develop. They are buying the capacity for agricultural and industrial development programs; the concept is expressed in Mexican President Lopez Portillo's goal of eliminating the Mexican peasantry by the year 2000 and turning them into an industrial workforce. A development strategy shows that the Public Service Commission's 2 percent a year energy growth projections can't be used, even if that does represent the last few years' statistics.

## The History of Humanist City Building

*Criton Zoakos, Director of Intelligence, U.S. Labor Party, closed the conference with the following remarks.*

You may be thinking, "How can we do all that we discussed today?" Let me say that cities were built by men with a great purpose. They are built by a group of civic-minded leaders for a specific purpose, and when the purpose fails, the city fails, as the Baghdad Caliphate failed in the ninth century because of the collapse of trade. Alexander the Great waged his military campaigns to build cities. Cities tend to create human beings of superior intelligence.

After the lights went out in Europe with the Stuart Restoration, the humanist city builders came to America and established cities. John Winthrop saw America as a beacon to light the darkness of Europe.

Cities don't get built accidentally and don't collapse accidentally. Today, there cannot be American prosperity unless there is world prosperity. This means customers abroad. Most of the world today is not ready for American exports. This is really, in a sense, a question of who is qualified to handle machine tools. New York will be like a military command center, mobilizing to develop other cities. The purpose of New York is to be the gate of American high-technology exports around the world.

## "Energy Problems Are Driving People And Industry Out"

*From the remarks by Eric Lerner,  
Director of Physics of the Fusion Energy Foundation:*

It is apparent to New York's citizens and business community alike that electrical energy in the city is the most expensive and least reliable in the country. Con Edison's baseload generating capacity is overwhelmingly oil-burning, and fuel costs have quadrupled since Kissinger's 1973 oil war in the Middle East. The economic repercussions of the July 1977 New York City blackout are still being felt. Both the expense

plans of every nation in the world. Every nation already sees the American role as a top priority in formulating its policies.

*Simpson:* My concern is that in an unstable, underdeveloped country, they would not have the demand for our conventional 1100 megawatt nuclear plant, and that this would not produce revenues for it to be profitable. . .

*Hall:* The Babcock and Wilcox Corporation has developed a 300 Megawatt nuclear reactor. It is true that larger size reactors produce economy, and allow for pooling. But if there is a set of circumstances to create a demand for this size, Babcock and Wilcox is providing an answer. American industry is well ahead of their government on this.

*Simpson:* Who says 300 megawatt reactors are economically feasible?

*Hall:* Even though the cost per kilowatt would be higher, there would be off-setting savings in the transmission lines. There is a need for different size reactors for different situations.

*Simpson:* But the problem is that the utilities are committed to 1000-1200 megawatt reactors. . .

*Gilbertson:* The reactors which the Saudis and Iranians are talking about buying are in combination with

and unreliability of energy supply have played a major role in driving people and industry out of the city.

Concerted 15-year campaigns by environmentalists have prevented the construction of sorely needed generating capacity in the region and Con Edison's poor financial situation has left capacity and transmission lines in disrepair. This looting of basic plant and equipment and capital under-investment have recently been institutionally justified by the industry-owned New York Power Pool (NYPP) which has consistently

Potential Additional Generating Capacity by 1985		
Project	MW	Year of Completion
Quebec Hydro	1 000	1978
Shoreham Nuclear	820	1980
Jamesport I Nuclear	1 150	1984
Storm King Pumped Hydro	2 000	1984
Floating Nuclear Plant	2 300	1985
total — 7 270MW		

lowered projected demand for the region. Religiously following the dictates of Schlesinger's Department of Energy, and the Federal Power Commission before it, the delay and cancellation of critically needed projects has been rubber-stamped by the NYPP.

Currently, Con Edison has a peak-load capacity of almost 10GW (gigawatts, or 10 billion watts). At a modestly healthy growth rate of 7 percent per year (which was perfectly normal before the 1973 oil embargo hoax), the Con Edison system would have to double capacity for delivered power to 20GW by 1988. But at present, Con Ed has *no plans* to increase generating capacity until *after 1990*. NYPP projects only 20GW new capacity for the entire state by 1996!

It is perfectly feasible to make an additional 6 GW of generating capacity available to the Con Ed system by 1985, to restore the system to a 7 percent per year growth rate, by simply reinstating original timetables for planned projects. The accompanying table lists the specific projects, and although not all of the power indicated would be available for New York City, it is indicative of the results of a dirigist nuclear development program.

By contrast, the energy position of Energy Corporation of the Northeast (ECONO) scheme backed by Lazard Freres investment banker Felix Rohatyn and Fed Chairman G. William Miller is very clear: "the two major energy requirements of the region are reduction in demand through conservation, and stability of price and supply in the context of preserving environmental quality." To implement this conservation and the "transition from oil to solar, coal, small scale hydroelectric and 'resource recovery'" (burning garbage), they will doubtless be intimately involved with the Port Authority's plans to build four garbage-burning "industrial parks" in the region.

## "I Am A Neoplatonist Citybuilder"

*William Zsidisin, Principal Construction Engineer, Jersey City, New Jersey, who was an independent candidate for Governor of New Jersey last year, related his experiences as an urban planner.*

The U.S. Labor Party plays an indispensable role. They have helped me define my philosophy, and I now realize that I am a Neoplatonist city builder — a humanist. The humanists try to make thinkers of men.

Recently, I tried to interest New Jersey legislators in a course of action to redevelop New Jersey transportation, and to review railroad rights of way for the purpose of redeveloping the state's mass transit. I wanted to involve two Japanese companies. . .

But when I took this plan to the present Administration the meeting fell flat on its face. . . I thought 'What are these people thinking of — do they have their own aces in the hole?'

Or another case: the Westway (a proposed landfill highway replacement along the west side of Manhattan). That landfill could raise the level of the Hudson River 1-2 feet. This would have increased the costs of sewers in Jersey City by \$180 billion — why hasn't government looked at this?

I have three recommendations. First, we must embark on a solid public information program. And in this context, I've got to bring up vote fraud, because I've seen it both times I've run for office. We must get the proper action at the polls. And thirdly, we must continue to develop leaders to put forward development policies.

## Toward Effective Municipal Policy

*Yonkers City Councilman Fred Pisculli explained how municipal debt became unmanageable in Yonkers, N.Y.*

One of the main problems we face in Yonkers is having the money to run (operating expenses). Thirty three percent of our property taxes are now used to pay the debt service on our bonds. Yonkers is the only city in the United States with bonds guaranteed by property taxes.

We are facing a cut in state aid, from 31 million to \$26 million. At this rate, 50 percent of our property taxes will be used to pay interest to bondholders. This is why I have introduced this resolution to the City Council (see box, p.12).

Yonkers got into this situation by not bonding for capital improvement. Only 2.9 percent of its land is used for industry. . . Yonkers has rights to 3 square miles of waterfront land, which could be developed as a port as an extension of New York. But instead of industry, Yonkers is supported by property taxes, and now, by begging from the state, people don't realize that without police and fire services, their property is worthless. When we get into a problem, we raise taxes, or we play municipal unions off against taxpayers. Forty percent of all our municipal workers are funded through CETA. Effectively, we have one group — government of the few, by the few, and for the few. On these policies, the

Republicans and Democrats agree. But we have no real policy in Yonkers.

Another problem we have in Yonkers is that we have a 12 city councilman ward system. I only represent one ward. I had the Army Corps of Engineers make a study about what areas of the waterfront belonged to Yonkers to develop as an extension of the Port of New York. When I acted on that, everybody said 'that's not your district.'

I think we have a great chance and great potential in Yonkers. New York can contribute to Yonkers and Yonkers can contribute to development in New York City, like it has in the past.

## PSC Spokesman Sees Low Growth Ahead

*Robert Simpson, Assistant to Chairman, Public Service Commission of New York State projected a decline in energy consumption.*

I am an attorney and I bring a different approach to these questions perhaps than others... Our responsibilities on the Public Service Commission are to regulate New York State utility rates, certify major transmission facilities and enforce environmental laws.

... Prior to the oil embargo of 1973, we had a 7 percent rate of growth of energy use. The present rate of growth of energy use is 2.5 to 3.0 percent a year. The utilities are still building at a 6-7 percent energy growth rate, and at that rate will have an energy capacity 20 percent in excess of the 22 percent reserve margin required.

The cost of building nuclear plants in New York State is above the average national cost. The Shoreham nuclear reactors being built by LILCO (Long Island Lighting Company) were originally projected to cost \$350 million a piece. The estimate for each reactor is now \$1.2 billion. Shoreham will be the most expensive nuclear plant in the world. Changes in federal regulations caused a significant portion of this increased cost. Labor productivity must also be improved.

We in New York had a very sad experience at West Valley. This lends credence to the idea that we should not have nuclear power until we can guarantee safe disposal. On the problem of decommissioning, we face estimating the cost of an event that has never taken place . . . .

## "New York Is The Key To The U.S. Economy"

*Taken from remarks of Paul Gallagher, U.S. Labor Party candidate for Governor of New York.*

It is as a trade nexus, a gateway of U.S. exports to the world, that New York City's strategic importance lies. Whoever controls policy with regard to New York City,

Commodity	1974	1976	1977
agricultural machinery	44,300	32,000	NA
steel plate and sheet	128,378	100,848	65,000
non-electrical machinery	447,200	374,000	NA
electrical machinery	72,200	72,600	58,000
scrap iron and steel	1,689,000	1,182,000	NA
<b>total exports</b>	<b>6,000,000</b>	<b>5,400,000</b>	<b>4,864,000</b>

whether pro- or antidevelopment, controls the command center of the U.S. economy, and determines whether to contribute to industrial progress or its opposite. Historically, this has been understood and prodevelopment forces have always deployed to regain control of New York.

Today New York City is the source of 70-80 percent of the industrial credit for the U.S., and 1 million skilled workers are located in the metropolitan area of New York. Thirty-five to forty-five percent of the U.S. exports with the highest capital content still pass through New York. However, in the last 3 years, the trade of all commodities through New York has fallen from 6 million to 4.8 million long tons.

During the two world wars, trade through New York City tripled and the existing port facilities expanded. Along with this expansion in trade, in the 1920s, and the 1940s there was a victory over zero-growth ideas in education, science, research and industry. Prodevelopment forces deployed to win New York City to a policy of educational and industrial development.

We are virtually at war today. New York City policy today is a tactical skirmish in a fight to reverse industrial retrenchment in this country. If we were to believe Congress, the only question about New York is how much austerity and when. The real situation is that we in New York are facing a national problem — the collapse of trade — which threatens New York City, not a New York City problem that threatens the nation. New York was built as a nexus of trade — not a juridical self-contained revenue balanced district. 10 percent of New York's revenues still come from the port. New York City's problem is that every industry in the U.S. is talking retrenchment, not export. For example, we need to produce 250 nuclear plants per year in the advanced sector for export.

If U.S. industry moves to expand exports, fiscal and monetary problems, like those of New York City will fall into line. Build a counterpole around these policies and it will become clear to everybody except Senator Proxmire that the solution to New York City is at hand.

## Councilman Calls On Carter To Save U.S. Cities

*The loss of municipal revenues to growing debt service payments has prompted Yonkers City Councilman Fred Pisculli to submit this resolution to the Yonkers City Council:*

WHEREAS, Thirty-three percent of our property taxes in Yonkers currently are used to pay interest due on bond service,

WHEREAS, this money is "guaranteed" for the reduction of debt and cannot be used for other purposes such as municipal operations,

WHEREAS, this situation arose from previous mismanagement of funds, comingling or fund roll overs and other gimmicks which brought Yonkers to the brink of default,

WHEREAS, state aid to Yonkers has been cut since 1977 from \$30,970,361 to \$26,098,105,

WHEREAS, Yonkers is once again faced with a default,

WHEREAS, noble state officials have offered to loan Yonkers \$10 million in order to avert default,

WHEREAS, repayment of this loan will no doubt necessitate another bond sale "guaranteed" by a certain portion of our property taxes,

WHEREAS, this will result in perhaps 50 percent of our total property taxes going for debt services and will leave only 50 percent for municipal services,

WHEREAS, this will irrevocably cripple our city and the standard of living and safety of our citizenry,

WHEREAS, the banks will eventually discover that they have invested in worthless paper, which although guaranteed by property taxes, we cannot guarantee the safety of the property or its owners.

WHEREAS, the only way Yonkers can resolve this difficulty is through outright state aid combined with long term low interest loans provided by the federal government in order to expand our industrial base by development of reclaimed land at the waterfront with installation of all the required facilities at Austin Avenue which will make it a desirable viable piece of property for industry,

BE IT RESOLVED therefore that we call on the Congress of the United States, President Carter and all national leaders to intervene to restore an economic growth and expansion policy for the entire New York Metropolitan Area as the only means of restoring public credit.

We also call on Congress to condemn the presently in vogue ideas by some national leaders that the nation needs a deflationary recession to stabilize its currency. Such a policy will hopelessly compromise this nation's potential for a return to the policies of rapid capital formations, industrial growth and technological exports which have been its greater distinctions.

BE IT FURTHER RESOLVED that the Governor of New York and the New York State Assembly and Senate regard Yonkers in its true potential, that is as a port city whose inhabitants are highly skilled and resourceful diligent workers who if given the necessary aid in outright grants to build up to our industrial capacity can not only be self sufficient rather than the abject beggar city they have forced us to become but also a great contributor to the revitalization of this once proud Empire State.

# The IMF Bears Down On Italy

*But Andreotti still looks to a nuclear-powered future*

Even while Italy's leaders seek a way out from under the International Monetary Fund's dictates, the IMF is propelling the Italian economy into another nosedive.

Disaster is heralded by the imminent collapse of a major component of the country's chemicals industry, the SIR Company, and by the government's agreement to additional new cutbacks demanded by the IMF and allied financier forces centered in the City of London. But the Italians continue to hold to their stated long-term commitment to economic expansion based on high-technology industries and fueled by nuclear energy, and are looking to the potential political clout of the emerging anti-IMF combination led by West Germany as the prime means to allow them to realize that growth program.

The IMF has threatened to withdraw its earlier offers of loans for Italian industry, and to pull back its support for the Italian lira this autumn. These economic threats are backed by the less public but nonetheless clear promise of more terrorism, scandal, and every other device of political destabilization to force the government of Premier Giulio Andreotti into line. Under duress, the Andreotti government has decided to pacify the IMF, yet at the same time is trying to open up new avenues of expanded foreign trade to offset the downturn that will inevitably follow the introduction of further austerity measures in a country whose budget is already below rock bottom.

## 1. The Austerity Axe

The new austerity measures include a 16 percent increase in electric rates and increases in rail freight rates and rail passenger fares, and are designed to reduce Italy's overall budget deficit from 26 trillion to 25 trillion lire. The IMF has demanded that the overall deficit be no more than 24 trillion. Treasury Minister Pandolfi has stated that he expects to make up the difference with increased exports of Italian goods and cutbacks in imports.

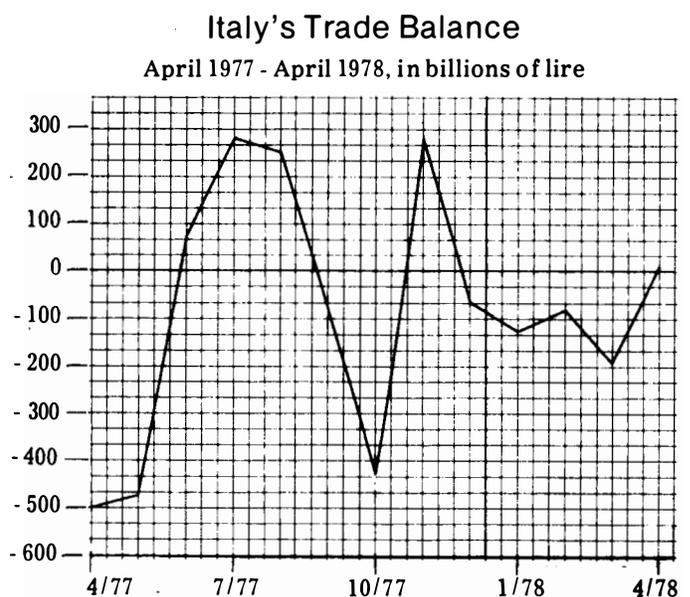
But the proposed industrial expansion that would enable Italy to expand its foreign export markets is threatened by an inflation rate that is estimated to be at 15 percent by the end of 1978. Further, even moderate inflation will mean a nominal growth rate of 13-15 percent, far above the 3-4 percent limit set by the IMF. The European Economic Community (EEC) is also demanding low growth, and dictating production levels for major industries on a European-wide basis in adherence to proposals made by EEC Commissioner D'Avignon, who has asked Italy to make significant cuts in steel, chemical, agriculture, and synthetic fibers production.

In addition to budget and production cuts, the IMF has demanded concessions from Italian labor to hold down wage demands and submit to pension cuts, increased "labor mobility," and slashes in unemployment compensation. The three major Italian trade-union confederations, the CGIL, CISL, and UIL, have agreed in principle to such demands, even though it means a significant loss of real wages and benefits.

Luciano Lama, head of the CGIL, the largest of the three confederations, has justified these concessions by expressing his belief that workers' sacrifices will ease high unemployment by allowing more jobs to be created, particularly in the country's poverty-wracked southern Mezzogiorno region. However, work stoppages and mass demonstrations have been stepped up in recent weeks, fueled by workers' fears that if large sections of the industrial sector are triaged, there will be significant numbers of layoffs. For example, if the collapse of SIR chemicals does occur, job losses in Sardinia could total 10,000.

There have also been increased demands that labor increase productivity, by working additional overtime not now in the master labor contracts, and by calls for cracking down on absenteeism (a chronic problem in the Mezzogiorno area), as well as through straight speedup.

A good example is the Alfa-Romeo plants. Accused in the Italian media of producing cars at a "snail's pace,"



Source: *Corriere della Sera*

the plants have been forced to work overtime for the last two months. While the metalworkers union, FLM, has declared the overtime project a success, the workers have been threatened by "prolabor" terrorist sympathizers who have infiltrated the major factories and carried out sabotage against electric transmission lines leading to the plants, newly produced autos, and so on. Such actions are bound to increase tensions among rank-and-file workers and could lead to potential major disruptions in industrial production, further enhancing the IMF one-two punch of austerity and destabilization.

A number of schemes have been put forward in recent months to pump some life into Italy's economy while zealously holding it to the IMF program. Two are worth discussion in more detail. Both assume the inevitability of a shrinking economic base, and instead of helping Italy rebuild its economy on a sound technological basis, would only hasten its collapse. One is the "Cuccia plan" for the chemicals sector, the other the recently proposed "Agnelli plans" for the Mezzogiorno.

## 2. For Chemicals: Asset-Stripping

The "Cuccia plan" for restructuring one of the cornerstones of Italy's economy, the chemicals industry, is named for Enrico Cuccia, director of the London-linked Mediobanca investment bank, which has financial con-

trol over the three major components of the chemicals sector: Montedison, SIR, and Liquigas. With the exception of the holdings by ENI, the state oil company, in Montedison, the majority of the stocks of the three largest chemical companies are in private hands, notably Cuccia's.

Cuccia's control over the giant Montedison firm stems from his takeover of Montedison soon after its inception in 1966. Stock manipulations and other acts of prestidigitation gained Cuccia sufficient stock holdings to be able to install his man, Eugenio Cefis, as Montedison's director.

Cefis was director of Montedison from 1968-1977; in only one year, 1975, could Montedison be said to have realized a clear profit. Despite an abundance of creative, technologically oriented personnel, Cefis cut his losses by cutting back on research, and sold off many of the "family jewels" — Montedison subsidiaries that were profitable, and could turn over a quick profit, to offset the financial losses resulting from a refusal to make technological innovations in plant and equipment and a policy of borrowing sums of money at short term rates of 20 percent interest. In addition, over the last two years, many top executives have left Montedison, leaving it with a lack of quality leadership.

Now, even with Cefis gone, Montedison continues to be a vast sinkhole. To remedy the situation, Cuccia is proposing to further asset strip it and the other chemical companies under his aegis. Cuccia is modeling his plan for Italian chemicals on the EEC plan for the fibers sector, one of the sectors whose Montedison holdings (Montefibre) have been steadily losing ground.

The EEC fiber plan, to come into being June 20, is to consist of a cartel of the EEC countries' fiber companies, with an overall 15 percent cut in production imposed by the EEC, fixed prices, freeze on building of new plants, and keeping existing plants operating below capacity.

Cuccia's plans for the chemicals sector are similar, which is why the debate in the Italian Parliament over the various plans for restructuring the chemicals sector to restore its profitability has been stalled since December 1977. The fact that the issue remains unresolved is indicative of a battle between Cuccia and the government, led by Industries Minister Donat-Cattin.

Cuccia's proposals, if carried out, would mean asset-stripping the chemicals industry to pay off back debts. Included would be closures of modern plants now in operation, such as the Southern Montedison plant at Porto Marghera, and the "rationalization" of existing, less modernized plants, most located in Italy's south. In addition, plants now on the drawing boards or being built would be totally scrapped, including several technologically innovative SIR plants now under construction in Sardinia.

In line with EEC proposals for cutbacks in chemicals production to compensate for a supposed "glut" in European chemicals markets, Italy would abandon basic chemicals, now the bulk of its production, for secondary or "fine" chemicals. Cuccia's plans also include establishment of a chemicals cartel, on a Europe-wide basis, that would divide the shrinking market among its members.

### How Italy's Chemical Industry Has Fared

Chemical Companies	Profit or Loss		Profits from invoiced shipments (% over previous year)	
	1976	1977	1976	1977
<b>ITALY (L trillions)</b>				
Montedison Group	-172	-462	- 3.6	- 8.4
ANIC Group	-133	-204	-14.3	-20.4
SNIA Viscosa S.p.A.	no net gain or loss	- 47	--	- 7.4
SIR Group	- 22	no net gain or loss	- 3.0	--
<b>W. GERMANY (DM billions)</b>				
Hoechst A.G.	786	691	8.1	7.3
Basf A.G.	823	677	8.4	7.0
Bayer A.G.	867	750	9.0	7.6
<b>UNITED KINGDOM (£ billions)</b>				
ICI	326	280	7.9	6.0
<b>FRANCE (F billions)</b>				
Rhone-Poulenc	-364		- 1.7	--
<b>U.S.A. (\$ billions)</b>				
Union Carbide	460	386	7.2	5.5
Dow Chemical	619	556	11.0	8.9
Monsanto	366	300	7.8	6.0
Grace	132	141	3.7	3.5

Source: *La Repubblica*

Italian chemical companies, almost totally controlled by Enrico Cuccia, showed substantial losses over the major West European and U.S. chemical companies.

In Italy, the virtually bankrupt operations of SIR and Liguigas would have to be bailed out by the state, to assure that payments of debts, particularly short-term debt carrying interest rates of 20 and even 25 percent, are not defaulted on. Note that a state bailout would not increase liquidity, or enable capital investments, but would be strictly for debt rollover.

While the Montedison plants remain somewhat solvent, with the exception of the fiber company Montefibre, SIR and Liguigas — both brought into the Montedison nexus by Cuccia — are teetering on the edge of bankruptcy. SIR is now in virtual receivership, with 80 percent of its holdings under the control of the state-owned credit institution ICIPU. Two weeks ago, SIR head Rovelli announced that SIR (Rumianca) plants in Sardinia, along with feeder production plants, will have to close, since the plants can no longer pay for the virgin naphtha used at the plant, for which the supplier, Agip, is demanding payment on delivery. In addition, the Kuwaiti Treasury Minister has reportedly threatened Italy with an OPEC embargo on oil supplies because of unpaid SIR petrochemical debts amounting to some 50 billion lire.

The threatened closures forced Prime Minister Andreotti to call an emergency meeting of CIPI, (the Interministerial Committee for Industrial Planning) May 26 to propose that the two public credit institutions, IMI and ICIPU, grant emergency loans to SIR to enable it to keep operating, pending parliamentary action on the government's counterproposal to the Cuccia plan, which is being submitted June 20.

Liguigas, headed by Raffaele Ursini, is in a similar position. Faced with mounting debts totalling approximately 1400 billion lire, due to the year-long failure by the Italian Parliament to approve Ursini's plans to build plants to produce bioproteins, a cattle feed, Ursini has defaulted on debts, has been forced to liquidate his bioprotein holdings, and is threatened with bankruptcy. Like SIR, Ursini's company has just received a temporary stay of execution with a decision by his five major creditors to roll over debts pending a restructuring of Liguigas, on the argument that the company is still potentially profitable and should not be liquidated.

While there are no clear indications of what the government's proposals for the chemical sector will be, it is clear that under the lead of Industries Minister Donat-Cattin and Treasury Minister Pandolfi, every effort will be made to avoid direct state bailouts. Rather, the government will attempt to link state funding to expansion of the productive base, exemplified by the Soviet-Italian agreement recently signed to build a Montedison plant in the Soviet Union.

### 3. For the Mezzogiorno: "Jobs Creation"

Considerably more prominent in the organizing to dismantle Italy's economy is Gianni Agnelli, head of the Fiat auto empire and a major stockholder in Montedison. Last month, Agnelli put forward a proposal to create upwards of 5,000 labor-intensive jobs in the southern Mezzogiorno area, the traditionally underdeveloped region in

Italy that has a high unemployment rate, and whose workers have few job skills that would net them a place in high-technology industry. The area's backwardness is used as a justification for those colonialist visions of looting the South's major resource: its labor force.

To that end, Agnelli has proposed his "jobs" plan, which involves dismantling existing Fiat-owned small truck plants in the industrialized North and transporting them south, piece by piece! While touted as economic expansion, it is actually contraction, since it involves loss of some 10,000 jobs in the existing plants, no new capital investment, and no training for skilled jobs for the southern workers. The proposal also hinges on the necessity for labor mobility; if plants are moved out of the north, northern workers, many of whom originally migrated from the south, will return to take the "jobs" Agnelli has promised.

Obviously, Agnelli isn't playing Santa Claus. For months, Agnelli has been trying to sabotage the high-technology nuclear energy industry's plans to build nuclear power plants not only in Italy, but for export to less developed countries.

Exemplary of this is Agnelli's recent attempts to prevent the signing of an agreement with Italy's state energy agency, ENEL, and Iran, for the building of up to 20 nuclear power plants, under licenses granted by General Electric and Westinghouse.

Agnelli caused a flap by claiming that he was to have

	1978		1979	
	Quantity	Current prices (bns. L)	Quantity	Current prices (bns. L)
GNP at market prices	2.0	199.180	3.1	234.650
Imports	5.0	51.600	6.0	59.620
Private consumption	2.0	131.155	2.8	155.095
Public consumption	2.0	28.240	2.5	32.830
Gross fixed investments	-1.9	37.045	5.1	44.355
Construction investments	-0.5	21.390	3.0	25.000
Machinery investments	-3.7	15.655	8.0	19.355
Variations in reserves investments	50.0	3.765	3.6	4.370
Exports	5.5	50.575	5.5	57.620
Balance of payments, goods and services		-10.025		- 2.000

Source: *La Stampa*

led a delegation, which included Foreign Minister Forlani and State Industries Minister Bisaglia, that visited Iran this past April to discuss trade agreements between Fiat and Iran. While Bisaglia quashed this, asserting the true nature of the Iranian negotiations, nevertheless, in the aftermath, Iran withdrew its proposal, and the matter remains unsettled.

Since that time, Agnelli, in conjunction with U.S. Ambassador to Italy Richard Gardner, has attempted to sabotage Italy's domestic nuclear development by promoting coal as *the* answer to Italy's future energy needs, citing the recent signing of an agreement with Poland to supply Italy with coal as obviating any need for nuclear power. Within the nuclear industry itself, Agnelli's collaborator, Milvio, the head of Ansaldo Meccanica Nucleare, has led the fight to convince ENEL that nuclear is less important than coal, and has promoted schemes to develop solar energy boondoggles as a favorable "alternate energy source."

Ambassador Gardner, for his part, has sponsored trips by Italian nuclear experts to the U.S. to "show off" various American-developed solar energy schemes, and at a meeting recently at Milan's Bocconi University, Gardner attempted to dissuade the Italian industrialists in attendance from seeking a solution to Italy's energy problems with nuclear power by arguing that nuclear power would mean a proliferation of nuclear weapons.

#### 4. The Nuclear Alternative

Despite the high-level antinuclear push by people like Gardner and Agnelli, Italy remains committed to the development of nuclear energy.

ENI has just undertaken a major advertising campaign aimed at promoting the nuclear fast breeder reactor as the best long-term solution to Italy's (to say nothing of the world's) energy crisis. It was announced two months ago that ENEL has formed a consortium called Corev to build a fast breeder reactor, of the French SuperPhenix type, in collaboration with France. Then Energy Resources Director for the Industries Ministry Ammassari declared at a recent meeting in Puglia that Italy will build a plutonium reprocessing facility at Rotondella, to supply one-third of the fuel for the Eurodif fast breeder program, in which Italy participates. Pro-development forces appear determined that Italy's nuclear program will not be undermined.

Italy's own nuclear reactor building program is relatively modest, calling for four reactors in the next five years, and eight more in the next ten. But nuclear reac-

tor manufacturers are undertaking a campaign to expand their foreign markets.

ENEL recently concluded agreements with Egypt to provide that country with at least two light water reactors, and with Syria for a gas liquefaction plant and a conventional thermoelectric plant. Newspaper reports indicate that at least some of the financing for the Syrian plants will come from West Germany.

The West German financing is key, since there are no indications that U.S. banks, or the Carter Administration, will be ready or willing to encourage Italy's nuclear exports in the near future.

What is most promising, however, is for Italy to become a participant in the East-West economic cooperation represented by the recently signed 25-year economic cooperation agreement between Soviet President Brezhnev and West German Chancellor Schmidt.

At a conference of the Italo-Soviet Chamber of Commerce in Milan last month, the Soviet Ambassador explicitly invited Italy to participate. Wasting no time, Italy sent two delegations to Moscow in quick succession. The first, led by Vice-Foreign Minister Radi, discussed agreements for building a Montedison chemical plant, and a steel plant to be built by the State-owned Italsider. A second high-level delegation, led by State Industries Minister Bisaglia, and accompanied by ENI director Sette and the director of the state heavy industries (IRI), Petrilli, has "concretized matters" concerning the building of a steel plant in the USSR at Oskol, and supplying the Soviet nuclear Atommash program in Siberia with nuclear components. Also discussed: the possibility of a three-way deal with Italian (Italimpianti) and West German (Kruppwerke) collaboration to build a machine tool plant in the Soviet Union.

With these kinds of multilateral agreements, Italy could begin to point her economy toward economic stability, and recovery. The political conditions necessary to implement such agreements were no doubt a topic of discussion when Andreotti visited Chancellor Schmidt in Hamburg June 17.

A strong joint position at the upcoming Bonn summit by Schmidt and Andreotti against the IMF's insistence on austerity — hinted at by Italian Treasury Minister Pandolfi's statement earlier this month that Italy might have to declare a moratorium on payments of its \$400 billion EEC loan — could point the way for immediate capital investment in real production, rather than bail-outs. More important, it could give Italy the breathing space it needs to begin to implement a nuclear-powered alternative economic policy that can put that country on a sound basis for future development.

—Margaret Bardwell

# An Open Letter To 'Foreign Affairs'

LaRouche tells editor William Bundy what's really wrong with the CIA

An exchange of letters in the "Comments and Correspondence" column in the July, 1978 Foreign Affairs prompted U.S. Labor Party chairman Lyndon H. LaRouche, Jr. to respond with this open letter to the magazine's editor, William Bundy.

The exchange concerned an article titled "Ethics and Intelligence" that appeared in Foreign Affairs of last April. A letter by Arthur L. Jacobs, who described himself as enjoying "19 years' experience in the (CIA's) Operations Directorate sometimes called the *Clandestine Service*," challenged the contention of author E. Drexel Godfrey (with "13 years' experience in the CIA Intelligence Directorate") that the Agency's covert operations were both unethical and of dubious intelligence value, and so should be drastically curtailed. Jacob's lengthy defense of covert operations, called for "safeguards," but not further "restrictions": "We cannot maintain an effective (intelligence) service by multiple layers of watchdog offices within the executive, or by watchdog committees in our Congress which attempt to supervise in excessive detail." In reply, Godfrey restated his contention that "good men, allowed to operate without a sense of limits abroad, may find their capacity to distinguish appropriate and ethical limits in other contexts reduced. . . Too much damage has been done, too much credibility lost. The intelligence function must be radically redefined. . . and its traditional covert activities curtailed."

Here is LaRouche's answer to both sides of the the "covert operations" debate.

Subject: CIA Policy (Jacobs, July 1978)

June 17, 1978

Dear Mr. Bundy:

Whether or not Admiral Stansfield Turner and-or Zbigniew Brzezinski leave their posts during the weeks ahead, the present demolition of the U.S. intelligence and security capabilities must end, and a program of rebuilding introduced. We can not leave the nation without *preventive* capabilities against terrorism. We can no longer tolerate the recently aggravated situation in which the CIA has no qualified senior specialists in key regions of the world. We can not tolerate a situation in which the White House and Congress are strategically blind, and thus open to dangerous disinformation in many of the most vital areas of policy and executive decision. Nor can we rely on the assumption that our admittedly well-informed acquaintances of SIS, MI-5 and so forth be as accurate and forthcoming as we might wish them to be.

Apart from the useful function of being provocative insertions in *Foreign Affairs*, the combined efforts of Drexel Godfrey and Arthur L. Jacobs ("Comments and Correspondence," July 1978) confuse a problem already a tangle of muckrakers' mythologies and popular delusions. I desire that you employ this provocative letter of mine as a contribution to redirecting the agenda of inquiry and policy formulation. We require a new national intelligence policy, and very quickly.

In this letter I shall introduce elements of argument designed for the nonprofessional, to suggest thus the kinds of arguments professionals ought to be contributing to informing policy-designers and policymakers and the electorate generally. I shall also focus on points which directly address the professional. If the reader makes himself or herself conscious that I am consciously doing both things here, the reader will more efficiently understand the approach I am setting forth for use. Otherwise, it will be useful that the reader reminds himself or herself that I am not only factionally a Neoplatonic, but that I employ methods of judgment and communication which are specifically Neoplatonic, to the effect that what I write here can be read to slightly different effect on each of three levels of knowledge — *inductive hedonism*, *deductive understanding*, and *reason*.

To aid the reader on that point, I now proceed to an illustrative case, and thereafter indicate how that argument can be read on three levels. I shall emphasize that this matter of evaluation on the three classical Platonic-Neoplatonic levels of knowledge is the essence of competent political-intelligence evaluations and proper guidance of intelligence operations.

## *Covert Operations Against Terrorism*

The following illustrative case, which I choose to term a hypothetical case, ought to indicate the kinds of evidence which expose the fallacy of the sort of moralizing into which Mr. Jacobs ensnared his typewriter. We do require "wet" operations capabilities in the domain of covert intelligence warfare. The moral issue is properly limited to policy considerations analogous to those appropriate for regular warfare.

A major industrial nation, a close ally of the United States, has been subjected — in this hypothetical case — to a hideous escalation of international-terrorist bloodbath, culminating in the brutal abducting and ensuing assassination of a former head of government. The actual and stated objective of this wave of terrorism is to destabilize not only an existing, duly constituted government, but to undermine the constitutional order of that nation. This government and responsible leaders of

the nation's two major parties have made repeated direct and indirect solicitations of U.S. intelligence assistance.

The intelligence service of this nation, plus the intelligence services of a nation closely allied to both it and the USA, have made clear determinations concerning the authorship of the terrorist operations. Included in these conclusive determinations are the names and roles of several persons nominally "above suspicion" who are a key part of the command of the terrorist infrastructure. Their arrest or demise would significantly damage the terrorist operations objectively, as well as producing a most desirable deterrent effect. These persons include figures associated with a certain faction of the old aristocratic families of Europe, part of the same network which groomed and sponsored Adolf Hitler in Bavaria. Some of these are out of reach of arrest because of diplomatic immunities.

In the aftermath of the assassination of the former head of government, two of these key terrorist controllers are hastened to their infernal spiritual rewards by accidents. These accidents, occurring in the context of an acceleration of effective counterterrorist activities by intelligence and security agencies, contribute to the containment of the terrorist problem. The popular view of the matter circulating among informed circles is that the Hand of God intervened to aid that beleaguered nation in a most timely and appropriate way.

I suggest that such realities ought to be contrasted to the hypocritical babblings of various "Deep Throats" and parodies of Titus Oates now titillating congressional committees and sections of our news media. It is also a contemptible fallacy of composition to condemn U.S. services without taking into account the practices of British SIS networks and elements of Israeli intelligence, two of the "wettest" forces running amok in the international spook world today.

Let us examine the political-intelligence side of the same general problem of international terrorism.

The question posed is whether the terrorists are policy instruments of the Warsaw Pact nations, Yugoslavia, Cuba, or Peking.

Apart from the case of "sheep-dipping" of proterrorist figures in pilgrimages to Havana and so forth, which does not delude qualified professionals, there is some past evidence leading to Prague and associated precincts. Upon examination, the connection of Feltrinelli and elements of the Socialist International's Red Brigades terrorist groups to Prague is firmly proven for the case of the Dubcek regime, a regime which also performed a wretched role in its effort to shape Cuban policy in the Americas. There have been and are elements in the Warsaw Pact nations which have aided or do wittingly or unwittingly aid terrorism in Western Europe and elsewhere.

These, however, are not the controllers of terrorism, and are among the factional opponents of the forces associated with Soviet President Brezhnev and Mr. Kirilenko. They are either "Bukharinites" associated with certain intelligence networks based in NATO

countries, or a twisted sort of "hard-liner" who desires strategic confrontation with the West and who therefore winks at practices which contribute to revival of Cold War atmospheres.

Peking does directly and actively support international terrorism and elements of the international drug traffic as a matter of state policy of the presently ruling combination in that nation. There is in the Philippines an Islamic guerrilla and terrorist force, headquartered in the City of London, which is patronized by Peking. Throughout the subcontinent, the Middle East and into Africa, there are important terrorist and related capabilities which Peking either directly controls or shares with certain intelligence networks based on NATO countries. Burma, Bangladesh, India, Pakistan, Afghanistan, Iran, and other nations are burdened with a major Peking-linked problem of this sort.

This Peking terrorist activity is overlapped with Peking's participating role in the international illegal opium traffic. Hong Kong and Singapore are the relevant financial centers for this drug traffic of the "Golden Triangle," with Chinese merchants key to the conducting of Peking's proportionately modest share in the revenue of this traffic, and this traffic significant in funding terrorist and related operations.

Sorting out basic facts concerning this aspect of international terrorism already requires sophisticated and extensive work by bodies of well-equipped professionals of our regular political-intelligence and drug intelligence agencies. The importance of this political intelligence is not merely a matter of sorting out facts from disinformation and misvaluations. One obvious result of good intelligence work is equipping our State Department with valuable options for obtaining cooperation of the Soviet and other nations' leaderships in joint operations against terrorism and illegal drug traffic.

These aspects of the problem can be mastered on the level of *deductive understanding*, as elements of intelligence forces in France, Italy, the United States, and other nations have already made correct determinations to the effect we have considered here. The deeper understanding of terrorism, and the development of most-sophisticated counterterror activities, requires a higher level of overview of the facts available, from the standpoint of *reason*.

For more than 2,000 years, Mediterranean-centered civilization has endured terrorist operations modeled on the ancient Phrygian cult of Dionysus. The most notable modern example is the Jacobin Terror directed by Danton and Marat, whose terrorist (sansculottes) instruments reflected the scholarly excess of "Phrygian caps." The connection between Phrygian terrorism and Luddite varieties of "environmentalism" is not peculiar to transatlantic international terrorism today, but is as old as the bucolic Hesiod. Terrorism and Luddite varieties of "environmentalism" go arm-in-arm as a battering-ram against the republican political forces dedicated to scientific and technological progress. There ought to be nothing surprising to the scholar in the discovery that the "ultra-ultra-leftist" terrorist of today turns out to be an instrument of, inclusively, the same

aristocratic circles which sponsored the rise of the Nazi Party in Bavaria, the circles of the "black nobility" who pursued the same antitechnology policies in their fights against the allies of Dante Alighieri, Petrarch, Cosimo de Medici, and Leonardo da Vinci.

If the authorship and guided development of the New Left and related projects is examined from the vantage-point of knowing the history of the evolution of the Phrygian cults over the recent thousands of years, there is nothing essentially original in the purpose or methods behind the coordinated, overlapping development of both international terrorism and Luddite forms of "environmentalism."

The currents behind such antics in both the capitalist and socialist sectors have common pedigrees which bridge the supposed distinctions between socialist and capitalist factions. Just as Jeremy Bentham and Jean-Jacques Rousseau in the development of the anti-American forces of the Jacobin Terror were instruments of the same faction of the "black aristocracy" associated with terrorism today, so the influence of Bentham and Rousseau within the socialist movement combats the contrary socialist factions traceable (in Russia) inclusively to Leibniz, Benjamin Franklin's influence, Czar Alexander II, and Count Witte.

It is not accidental that the proper definition of the factional struggles within the Soviet Union is of a continuing battle between the heirs of Leibniz and the heirs of Bentham. Although, on the level of deductive understanding, the United States can seek effective detente with the Soviet Union in terms of specific measures of mutual or reciprocal self-interest, on the level of reason no truly durable detente can be established with the Soviet heirs of Bentham, but only with the heirs of Leibniz. U.S. policy ought to be that of strengthening the credibility and influence of the Soviet heirs of Leibniz, by rewarding those elements and impulses within Soviet foreign policy which correspond to the tradition of Leibniz.

That is the proper way in which to approach the political-intelligence tasks of antiterrorism. The methods and quality of required political intelligence for antiterrorist work are coherent with the methods and quality of political intelligence required for shaping U.S. policy toward the Soviet Union. Competent political intelligence is the basis for shaping operations intelligence policies, including determining which targets of covert intelligence warfare are morally and practically deserving of various forms of treatments. If the United States armed its Central Intelligence Agency with such a clear directive and mandate, that policy itself would cause the forces behind terrorism to tremble and be significantly deterred.

If we do not give the CIA such mandates and capabilities, and if we do not give similar support to the intelligence work of the FBI and state and local police agencies, the United States is laid open to a wave of terrorism analogous to what has been witnessed in Europe. Chasing identifiable individual terrorist perpetrators after the fact of the specific criminal act is necessary, but by itself it can do nothing to deter or contain the kind of terrorist deployments now being

prepared for the United States. Without an adequate intelligence capability, able to deploy surgically precise preventive actions, a mounting wave of terrorism provokes a besieged nation into police-state measures.

For example, the development of the sansculottes of terrorism, the Weathermen and their emulators and admirers, depends on a drugs and sodomy-flavored subculture. These tools are not in the appropriate condition for deployment unless they are maintained in a specific form of moral insanity. This is the essence of the Phrygian drug-and-sodomy-flavored terrorist cults and their lesbian-maenad-terrorist offshoots over thousands of years: the maintenance of a Phrygian subculture in the condition it must be to serve as a source of terrorists and their political auxiliaries in a variety of "life-style" associated with "communes" reeking of marijuana.

Although marijuana is a bad substance with psychotropic and physiological side-effects, the leading significance of marijuana usage today does not lie in its own specific effects, but in its role as the gateway to and context for a lifestyle of eerie sexual practices and usage of a wide spectrum of more dangerous psychotropics and addictives. This marijuana-centered life-style, especially as radiating from the retreats of the more wild-eyed "environmentalist" communes, is the infrastructure of terrorism and terrorist potentialities in the USA today. For this reason, the pattern of legislative "decriminalization" proposals and directed nonenforcement of existing antidrug statutes and ordinances is the single greatest contribution to fostering a terrorist potentiality within the United States today.

This quality of political-intelligence determination should not only be within the capability of CIA, FBI, and state and local police agencies, but this intelligence ought to guide government executives and legislators in treating the drug problem. If federal and state and local agencies are given mandate for arresting and securing convictions of drug abuses, this mandate arms them to neutralize at will the largest portion of the Phrygian side of the terrorist infrastructure.

A fairly recent successful police action in Mexico illustrates the point. The University of Mexico has been a hot-bed of terrorism. The police were frustrated in their efforts to deal with this problem, because of the campus immunities under which the terrorist nests on campus were shielded. Acting on advice received, the police intelligence placed a relevant section of the university faculty under extended surveillance, developing evidence which led to a major police action in which not only masses of drugs, but many caches of weapons, including machine-guns, were secured.

The fact that the terrorist-environmentalist hard-core infrastructure depends upon a certain drug-linked life-style makes antimarijuana laws with teeth one of the most crucial weapons in facilitating waves of mass arrests which neutralize terrorist capabilities in a locality. Although the "hit squads" used for assassinations and similar acts may be imported, and may not establish direct contact with the local terrorist-support and environmentalist groups, the psychological-warfare feature of terrorism usually demands preparatory and follow-up acts and diversions by

terrorist and environmentalist groups indigenous to the region. Breaking the back of that local infrastructure under conditions of impending or ongoing terrorist action is an efficient counterterror action.

One further example is relevant to the connection between political intelligence and combined overt and covert antiterrorist operations.

A terrorist action often involves the parallel deployment of two core groups. Let us consider the hypothetical case in which a terrorist-type action aimed politically against the Governor of New Hampshire is being deployed to the construction site of the Seabrook nuclear energy plant. One group is deployed as an antiviolence force, trained for this in "nonviolent civil disobedience" roles under the guidance of a well-known pacifist organization. The deployment of this group provides several essential kinds of flanking support for activities by a proviolence group of environmentalists. The object of such an operation would be to insert the violent groups into the same local theater as the "nonviolent civil disobedience" forces, and to force a situation in which the "civil disobedience" forces were involved in police action against the violence.

Efficient police cooperation for such a case would include marijuana busts of groups being deployed to New Hampshire in the cities and towns from which the forces were being dispatched to the action. This should be accompanied by the sort of measures police agencies in Europe used to prevent a bloodbath at one nuclear site in West Germany — a "seal-and-search" of vehicles bringing "counterculture types" into the target area. That action relieved the situation of masses of weapons and improvised weapons, as well as reducing the number of violence-oriented, hard-core forces moving toward the West Germany target from France, Switzerland, Belgium, Austria, Holland, and West Berlin. The projected replay of Creys-Malville fizzled. This successful action was the fruit of collaboration among political-intelligence as well as police agencies of the cooperating nations, and depended on covert intelligence as well as other activities.

I propose that the connection between political intelligence and intelligence covert operations provides a model for outlining the basic conceptions of covert operations policy generally. It also pushes to one side the sickly, empty moralizing on this subject which has much occupied the Congress and news media.

#### *Improving Political Intelligence*

Apart from Jacob's foolish sort of abstract moralizing, the most shocking feature of his commentary is the fact that Jacobs, as a presumably experienced professional, should express so pathetically amateurish a misconception of "intent" and "secrets." If I were not occupied with more important responsibilities, it would amuse me to head up a counterintelligence agency whose adversary intelligence force viewed intelligence as a matter of filching "secrets" from closely guarded files. *How our adversaries would dance to our tune!* There is no intelligence agency so foolish as one which bases itself on covertly secured "facts," especially facts representing "intent."

I am not arguing. I should inform the layman, that spies should not steal "secrets." This unavoidable standard activity in military-intelligence scrutiny of adversary technological capabilities and commitments. It is also necessary to have a capability for filching those "secrets" which have a crucial importance within the testing of a political-intelligence hypothesis. What I am stating is that intelligence estimates based chiefly on the arrangement of collections of filched "secret information" are intrinsically the work of incompetent amateurs.

The business of basing intelligence estimates on stolen information pertaining to an adversary's (or other's) "intent" is the most amateurish, most incompetent practice of all.

In a political deployment against an adversary, including the special case of military deployment, the deployment itself is designed to shape the adversary's perception of his intent by creating a degree of controlled environment around those targetted decision-makers. The vital sort of psycho-political intelligence is therefore the predetermination of what the intent of the adversary decision-makers will be under alternative controlled environment conditions which are within our foreseeable means to generate. What the fellow's conscious intent may be before such a development does not bear any necessary similarity to what his intent will become under generated controlled environment conditions.

Furthermore, since most politics involves a large array of deception, "hard evidence" of a prospective adversary's intent may fall into our hands either as deliberate deception by the adversary or may reflect other forms of deception or self-deception by the persons under study.

For example, were I running a counterintelligence agency, and were it reported to me that a certain adversary agent had been detected in place in sensitive parts of our establishment, I would not leap automatically to the amateurish decision of promptly arresting the fellow. I would more probably propose to evaluate the possibilities for turning the agent, to make him my witting tool, or to make him my unwitting agent, by a controlled amount of leakage of deception-information into areas from which he will attempt to steal. In the latter case, I would not have the information given to him, but present him with a difficult but feasible incentive for stealing. The greater, the cleverer the means by which an adversary intelligence force managed to steal a fraudulent document, the greater the value they would place upon it. *How they would dance!*

For example, to examine the problem on a higher level, consider the case of Soviet military posture. The Warsaw Pact does maintain and is generally enhancing a relative war-winning capability against NATO and allied forces. I know this because I know how leading Soviet circles think, because I have studied the history of the Soviet strategic outlook, and because I have confirmed crucial evidence that Warsaw Pact capabilities are developed in ways which have no other possible significance.

Now, consider the nonsensical interpretation of the fact of Soviet military strategic posture which

proliferates among many of leading USA circles. Schlesinger and his allies believe in the nonsense cabinet-warfare doctrine of "limited nuclear war." Hence, Schlesinger and kindred light-witted types imagine that the Soviets are preparing to take initiative for a "limited nuclear war." "Classical" Kissingerians, as distinct from Schlesinger-type derivatives of Kissinger, situate this perception within the geometry of "thermonuclear deterrence." Others merely insist that the Soviets are lying when they profess not to be developing a war-winning capability. It is all based on an isolated aspect of something close to the truth in point of fact, but the evaluations are all nonsensical.

It is also a fact that the Soviets are determined to avoid war, to avoid provoking war, and to seek a phased process of general disarmament. The war-winning potentiality exists and is being developed on the contingency that primary, *war-avoidance*, policy fails. Furthermore, the Soviet war-winning capability is not based on the sort of "Blitzkrieg" thinking associated with Schlesinger, Kissinger et al., but exists only for one condition of warfare, a general thermonuclear war which begins with a total intercontinental assault against the logistical centers (e.g., population centers) of the continental United States — along with other targets. Under those conditions, continuing warfare brings the in-depth, war-fighting capabilities of the USSR into play as the dominant feature of continuing warfare, following full-scale thermonuclear exchanges.

The notion that war begins with an armored-column assault in central Europe, and then probably escalates to nuclear exchanges, is the imbecility embedded in most of the misguided published estimations of Soviet and Warsaw Pact capability afoot in U.S. strategic policy circles. *For that sort of war*, the Soviets do not possess nor seek a well-defined war-winning capability. These Warsaw Pact tanks belong to the third phase of the assault — after thermonuclear and tactical ABC (atomic-biological-chemical) bombardment phases have "paved the way" for subsequent assault by mobile ground forces prepared to continue warfare in terrain which has massive ABC contamination. These armored forces move into the assault under conditions in which Western Europe and the United States have sustained ABC artillery bombardment and in which perhaps 30 percent of the Soviet population no longer exists. Soviet war-winning capability emerges only after that scale of initial destruction has defined surviving in-depth strategic capabilities of both sets of adversaries. In the equations of further mutual attrition after that point has been reached, Soviet strategy aims at ensuring that the ultimate, in-depth balance of assault capability lies with the Warsaw Pact forces.

Emerging advanced technologies will inevitably modify the quality of capabilities, but the basic equations of warfare will be ultimately determined by the same principles.

That defines one level of competent political intelligence in this connection. Competent intelligence does not stop there. Given the fact of the Janus-like mixture of Soviet primary commitment to war-avoidance and disarmament with complementary war-

winning strategic commitments concerning capabilities, why do the Soviets maintain the second feature of policy, the war-winning outlook? The amateur, the ignorant man in the street generally, insists that the NATO forces will do nothing to justify the Soviets' maintaining of a war-winning capability, and may therefore conclude that it is the Soviets who are darkly preparing to launch war or to blackmail us into submission with their emerging war-winning capability. This estimation by the amateur and credulous man in the street is factually absurd.

The danger of World War III flows directly out of the present policies of the International Monetary Fund, the World Bank, and the "Brandt Commission." The economic-genocidal implications of IMF "fiscal austerity" policies for developing nations cannot be durably imposed without totalitarian regimes throughout the entire developing sector. If the Soviets aid nations resisting the IMF's policies, that is taken as a potential act of war by backers of the IMF policy. If the Soviets do not aid developing nations seeking their assistance, the IMF-dominated regimes throughout the developing nations represent an intolerable strategic combination to the Soviets. Therefore, we have the option of either dismantling IMF, World Bank, and "Brandt Commission" policies or ending up in World War III. Perhaps some angered person retorts, "Do you, then, propose that we must allow ourselves to be pressured into dropping IMF policy by fear of Soviet military reactions down the line?" That would be a nonsensical question. Is economic genocide and totalitarian dictatorship throughout the developing nations the vital interest of the United States? If so, we have defined United States interests in World War III. That is the Soviet leadership's general view of the strategic problem, a view they are developing with increasing precision.

For this circumstance, the duty of the CIA and Defense Intelligence Agency is to inform the White House and Congress that the lunatic policy of supporting IMF policies is plunging the United States toward a general war which current U.S. strategic postures would cause the United States to lose. It is political intelligence operating at that level of quality and mandated authorities and duties which must be the controlling policy of the CIA and other national intelligence and security agencies.

#### *What's Really Wrong With The CIA?*

In form, the fundamental flaw in the CIA has been the same blunder which governed U.S. follies in Vietnam, the folly which is embedded as the central flaw in Clausewitz's *On War*. Under the influence of such Anglophiles as Charles Beard, and of Justice Holmes' "force doctrine" and similar subversions of American constitutional principles, U.S. institutions and policy-thinking during the 20th century have been degraded in quality and moral content by the substitution of abstract *state interest* for constitutional principles which define the United States as a humanist democratic republic dedicated to the promotion of a republican Grand Design-modeled order throughout the world.

In other words, instead of mandating our institutions to

serve a well-defined set of principles of national constitutional purpose, despite any change in Administrations, we have redirected those institutions to be servants for whatever radical changes in policy, including sheer White House caprice, represent the official definition of *state interest* for that specific Administration at that moment.

This is efficiently illustrated by a contrast of British military outlooks with American republican military outlooks against the backdrop of the effects of the prolonged Vietnam War on our military capabilities today.

Modern republican military doctrine is traced formally from the writings of Niccolo Machiavelli. Machiavelli's problem was that the antirepublican, oligarchical (Black Guelph) faction prevailed over humanist (republican) forces because the general urban populations were not adequately developed as a suitably trained and suitable equipped military force in depth. Although the insight was not original to Machiavelli, his formal treatment of the problem is the point of departure for all competent modern military thought.

After Machiavelli, there were three outstanding cases of the successful application of his principles to warfare. The first was the unbeatable military force of Cromwell's Roundheads. The second was the development of the military capabilities of the American Revolution on the basis of the urban-centered volunteer militia. The third was the development of the same principles by forces associated with Lafayette and d'Estaing, principles consolidated in the creation of the French Army under the guidance of Lazare Carnot.

In each of these three cases, the armies involved not only what proved to be a superior conception of warfare. These republican principles of warfare — an adequately trained and equipped people in arms — defeated a contrary military policy, the "cabinet warfare" doctrine of the antirepublican, oligarchist faction, the military doctrines based on the notion of an "all-volunteer army." Despite the crushing defeat of the "cabinet warfare" doctrine by Napoleon's armies, a Britain-dominated Europe effected a significant return to "cabinet-warfare" doctrines during the 19th century. These doctrines were crushed by the U.S. Civil War, and by two World Wars of the present century. Still, the British and their political allies have attempted, once again, to institute "cabinet warfare" doctrines, and venture on the rim of World War III with Britain's immediate NATO allies committed to the same discredited folly. The antirepublican "cabinet warfare" doctrines are not the distillate of professional military experience. Exactly the opposite: they are policies which the totality of military history pronounces folly. They recur because they flow from the political character of the antirepublican, British monarchy-led faction which introduces them wherever its influence can be effective to that end.

In the U.S. operations in Vietnam, a republican military capability, our citizen-army, was deployed for a purpose flowing from oligarchical strategic doctrines. If President Eisenhower had directed a military operation in South Vietnam under the guidance of his Atoms-for-Peace policy, rather than the kind of operation launched under Kennedy, no disaster could have occurred. The

deployment of U.S. military forces to act as an armed city-builder force, guiding the development of modern industries, agriculture, and infrastructure in South Vietnam, would have rapidly won over the population of the nation, and would have been the axis for a successful U.S. policy throughout Southeast Asia, a policy on whose basis we could have effected agreement with North Vietnam. Instead, we pursued a cancerously enlarged form of "cabinet warfare," colonial warfare, for colonial-warfare objectives. The involvement of the citizen-army and the population in that sort of war provided the circumstances in which vital institutions of U.S. republican military capabilities were easily liquidated, the destruction centering around the introduction of the oligarchical principle of the "all-volunteer army."

In other words, the republican military principle is the sound principle of warfare, which ensures victory for the republican force in the case of well-matched adversaries. However, to use that capability for a purpose contrary to its nature corrupts and may destroy the institutions on which such a policy depends.

The same principle applies to our intelligence institutions. The vital issue is not whether the CIA operations forces engaged in "wet" operations. The issue is the policy governing those operations. Who were the victims? Should those persons have been victims of covert operations? Did they deserve such a fate; was such action necessary? Were the policy-objectives of the operation consistent with the constitutional objectives of the United States?

The problem is that defending the Shah of Iran against parasitical forces utterly opposed to the development of that nation and imposing a fascist dictatorship in Chile cannot be judged equally. One is necessary, the other an abomination. The principle of state interest says they are morally equal in respect of the oaths and mandates of the CIA and its personnel. That is the gut problem. Every other problem which is proven to be a moral problem is only a derivative of the gut problem.

When agencies of a government kill people, the same distinction between killing and murder applicable to conditions of warfare is to be made. Killing an adversary is not murder if the action is a necessary action. Killing a captured prisoner, rape of members of occupied populations, and so forth are crimes. The judgment of the matter involves two problems. One problem is the abuse of power by persons capriciously attempting to "play God." The more general, more significant problem is the policy guiding the action.

If the President of the United States orders the CIA to make intelligence and covert-operations assistance available to the government of Prime Minister Giulio Andreotti or Chancellor Helmut Schmidt for combatting terrorism, and a clean job which does not injure innocents is performed, that is good. If a President orders the CIA to employ the same kinds of professional capabilities against persons Henry Kissinger dislikes, or to further the current policies of the IMF, World Bank, and "Brandt Commission," the successful completion of such an assignment is a crime against the United States' constitutional national purpose.

The problem with the CIA has been its faithful

performance of the kinds of policies it has been directed to serve, and the manner in which those same policies have shaped the judgment of CIA employees. Charles Beard, William James, Justice Holmes, Walter Lippmann, Jeremy Bentham, Jean-Jacques Rousseau, Colonel House, Woodrow Wilson, and the likes and admirers of Bertrand Russell are the source of most that has been wrong with the CIA. The substitution of *state interest* and "force doctrine" for the Neoplatonic-humanist, constitutional republican principles of Benjamin Franklin and his collaborators is the crux of the matter.

The CIA must be reshaped as a complement to the State Department and Department of Justice in serving the U.S. Constitution as a reflection of a Neoplatonic-

humanist dedication to the fostering of a national and global order based on the principles of the Grand Design. The CIA and other institutions of government must be reshaped, remanded both to serve that national purpose, and to be efficiently capable of resisting directives to purposes contrary to that national purpose.

In other words, we must rid our institutions, including the CIA, of the contaminating influence of British oligarchical traditions and practices. The CIA must be a servant of the American Constitution, not the manipulations of the networks of the London Round Table and the IISS branch of British secret intelligence.

Sincerely,  
Lyndon H. LaRouche, Jr.

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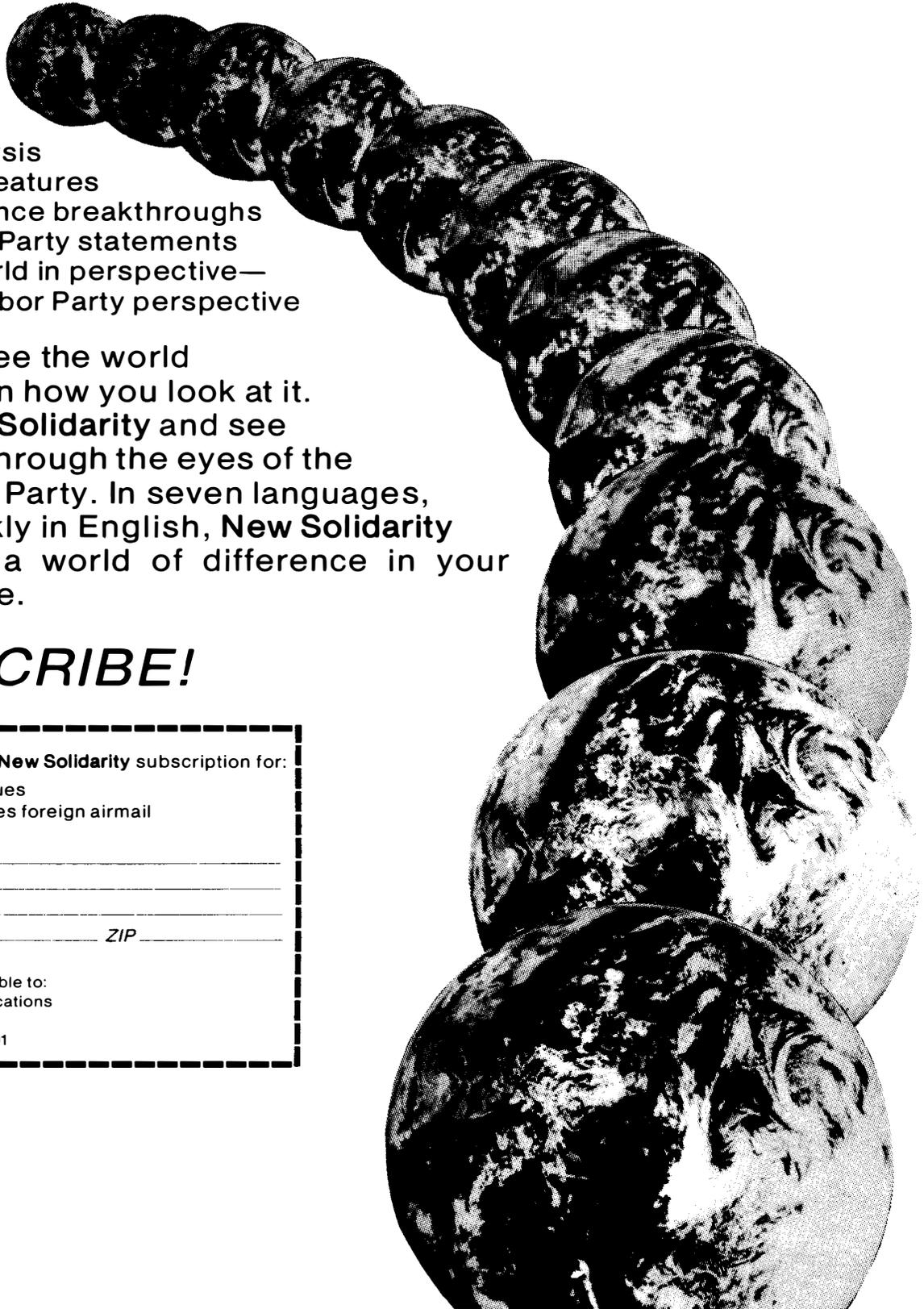
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## British Ruling Circles Split On Foreign Policy

A brawl has broken out in British ruling circles over what foreign policy options Great Britain's government should pursue — or should appear to be pursuing — in the critical period leading up to the July economic summit in Bonn. With the Bonn summit developing into a launching pad for a "Grand Design" strategy for trade and development, the British are in a quandary. Should they grab onto the coattails of the Grand Design and cash in on the opportunities involved or should they keep trying to wield total political control and risk losing everything?

### GREAT BRITAIN

The faction fight over this issue has filtered down from the highest British intelligence circles to the press, the government, and all forums of public debate. Indicating the seriousness of the issue, the City of London, which traditionally serves as a nexus of financial and political control for Her Majesty's ruling circles, has just gotten its hands slapped, for refusing to steady the government by purchasing special "gilt"-edged bonds offered for sale by the British Treasury.

The shift in British thinking became perceptible just after Zbigniew Brzezinski returned from his China trip. Just after the visit, British Prime Minister Callaghan, along with intelligence factions behind the *Financial Times* and *Guardian* newspapers began expressing uncharacteristic outbursts of alarm at the dangers inherent in feeding China's vision of the "inevitable" superpower confrontation. As these factions read the situation, an East-West clash over Africa or resulting from a conflict in the Mideast could easily lead to a thermonuclear war in Britain's own backyard — something which even the most sinister British intelligence chief would be loathe to consider. One of the top spokesmen for this point of view, Conservative Member of Parliament Winston Churchill III put it this way after his own recent visit to China: it is fine to sell arms to the Chinese, but only "weapons which cannot reach us."

#### *Indicators of Strategic Shift*

The recent activities of British Prime Minister Callaghan and his Foreign Secretary David Owen are the chief indicators of a change in British strategic thinking. Both have expressed their government's determination to avoid a super-power confrontation over Africa and have stressed that detente and a new SALT agreement are essential ingredients in maintaining world peace.

In a briefing to Parliament following last month's NATO meeting, Callaghan emphasized that "an East-

West collision over Africa can lead to World War III if we do not stop it... We are presently living in a powderkeg situation." Callaghan stressed the necessity of pursuing "as constructive and positive a relationship with the Soviet Union and the other East European countries as possible," and urged that situations of regional conflicts in the developing world should not be viewed exclusively in East-West terms.

Attacking the "reckless" behavior of the Conservative opposition in Britain who are hell-bent on provoking the Soviets, Callaghan said: "We are ready to meet any threat. The Soviet Union understands that. The Soviet Union also understands that this government is not anti-Soviet for its own sake. We intend to live with that country in the world and not set up any artificial confrontation with it. . . I have been impressed and depressed by the possibilities of another arms race unless we get some agreement on these issues. That is why I am not trying to raise the temperature with the Soviet Union. I am trying to lower it."

Callaghan's Foreign Secretary David Owen, who has previously attempted to steer the government toward a more reckless foreign policy course, has now softened and is advancing the proposal that the post-Shaba problem in Africa can be solved by a mutual agreement among Angola's Neto, Zaire's Mobutu, and Zambia's Kaunda, in the context of a policy for regional economic development. In a press conference early this month, Owen charged the West with over-reacting on the question of Cuban involvement in the Zaire invasion and the *Financial Times* has cast serious doubt on the strength of CIA Director Turner's "evidence." On the other hand, the *Times* of London, the Tory Party of Mrs. Thatcher, and certain key spokesmen in the British military are presently mobilized to draw NATO and the United States into a full-scale nuclear confrontation over Africa. Tory member Winston Churchill III, scion of another well known Cold Warrior, recently journeyed to Peking within weeks of the visits of British Chief of Defense Staff Neil Cameron and U.S. National Security advisor Brzezinski. Both Churchill and Cameron pledged that Britain and China were partners against a "common enemy", the Soviet Union, while Brzezinski's even more bellicose commitments to the Chinese leadership have frightened his controllers in Britain into their present policy shift.

Nevertheless, both the London *Times* and the *Daily Telegraph* ran stories day after day about the growing Chinese influence in world affairs, and constantly attempt to heat up the "war of nerve" between the Soviet Union and China. These newspapers have not only chastised Callaghan for giving President Carter the wrong advice "just when Washington is waking up to the

vital character of the Soviet threat in Africa," but have actually called for Brzezinski to be made Secretary of State. The London *Economist*, even more confidently claimed on its cover two weeks ago that everything was "going Brzezinski's way."

#### *Economic Policy Crucial*

The determining factor in the debate over Britain's foreign policy course is economics. A combination of events has brought the country to the brink of bankruptcy, with the possibility that a major collapse of British financial institutions will occur in short order following the refusal by U.S. and continental investment firms to purchase any significant part of £1 billion in Government debt ("gilts") offered by the British Exchequer. A climate of revenge is now building up among international bankers tired of London's relentless currency warfare and global financial manipulation. *Deutsche Zeitung*, West Germany's leading conservative-industrial newspaper, predicted last week that London was headed for a "Herstatt collapse", referring to the collapse of a major German bank in 1974.

Gross "mismanagment" of the British economy was what provoked the opposition parties in the British Parliament to call for a motion of "no confidence in

Chancellor of the Exchequer Denis Healey" on June 14. The confidence vote threw into stark relief the dilemma facing Callaghan if he intends to veer Britain in a direction nearer to the Grand Design. Healey is the City of London's spokesman in the government and would like nothing better than to turn the Bonn summit into a rallying cry for the construction of a "super-International Monetary Fund" to police the world's economies, Callaghan had to back him in the confidence vote, or risk a government defeat.

However, the Callaghan government may yet get its revenge on the City. Reports in the *Sunday Telegraph* of June 18 indicated that the Treasury is studying options which it could use to force London's financial institutions to buy up government debt, thereby sopping up the volatile short-term money which the London banks use to buy assets and political influence abroad. Should Healey and the London banking set be reined in by such moves, Britain would stand a chance of joining in plans for trade and economic development set for discussion at the summit. To keep up the pressure on Callaghan, West German Chancellor Helmut Schmidt has offered Britain several very lucrative propositions recently, including a proposal to bail out Britain's major shipyards.

—Marla Minnicino

# Persian Gulf Into The Grand Design

*Israel's alternative is 'The Crash of '79'*

The emerging Grand Design strategy of West German Chancellor Schmidt, Soviet President Brezhnev and other advanced sector leaders for relaunching the world economy is meeting opposition from the sponsors of the famous "Crash of '79" scenario. A key arena in the show-down is the oil-rich Persian Gulf.

The Persian Gulf is an absolutely critical component from the side of the Grand Design. According to available information, West Germany, France, and Japan are actively planning to make the upcoming advanced sector economic summit meeting in Bonn a strategy session for stabilizing the world economic and monetary crisis and mobilizing Western industry for development. In that scheme, the immense surplus funds from the states of the Persian Gulf will be invested in real production and in financing a massive increase of exports for development in the Third World, particularly the Middle East.

At the meeting of the Organization of Petroleum Exporting Countries (OPEC) that ended June 19 in Geneva, Saudi Arabia and Iran together backed a continued freeze on oil prices and demanded that OPEC stay with the U.S. dollar as a means of pricing and payments. Together, Saudi Arabia and Iran form an axis which no combination of other OPEC "price hawks" can break, and both countries reaffirmed their commitment to strengthening the world economy and the dollar.

In the Paul Erdman novel, "The Crash of '79," the collapse of Western civilization results from a military confrontation between Saudi Arabia and Iran, instigated by the Israelis. This bestseller was sponsored by the City of London banking house Lazard Freres.

The "Crash of '79" faction — led by the Israelis, key British financial circles, Edmond de Rothschild's international Zionist faction and Henry Kissinger, are completely opposed to the establishment of a prodollar Saudi-Iran axis, and fear the emergence of a worldwide development alliance linking the large Gulf states to the United States, West Germany, France, and Japan. In the weeks that preceded the OPEC meeting, tremendous pressure was exerted by Israel, Great Britain, and Kissinger on the Shah of Iran to compel the Shah to break his alliance with the Saudis and join the price "hawks."

In fact, immediately before the OPEC meeting, Henry Kissinger and former British Prime Minister Ted Heath paid a secret visit to Iran for talks with the Shah. In addition, the surge of riots and demonstrations against the Shah by dissident Shi'ite factions is known to be coordinated by a long-established British intelligence network, with Israeli support, that is based in Iraq, Algeria and southern Lebanon. But the Shah did not crack.

## *The Israeli Threat*

With the results of the OPEC meeting confirming continued support for the U.S. dollar, and especially with Saudi Crown Prince Fahd's important visit, now underway, to West Germany and France, the British-Israeli faction that supports Israel's Moshe Dayan has decided to train its guns on the Middle East, especially the Persian Gulf.

In recent weeks, leading Israeli military analysts, including Air Force General Ben Peled, have openly advocated that Israel launch an air strike to destroy Gulf oil fields in a new war, alternately targeting Saudi Arabia and Iraq.

The Israeli Cabinet decision, made after weeks of postponement and timed to coincide with the OPEC meeting, that Israel would not ever consider a withdrawal from the occupied West Bank — despite American pressure — was a direct challenge to the Persian Gulf states' decision; and represents a Dayan-led attempt to at least keep the future of the Gulf unstable, if not actually to launch a war.

The implication of the Cabinet decision was explicitly acknowledged by Defense Minister Ezer Weizman, who, along with U.S. Senator Jacob Javits, has emerged recently as a dovish opponent of the Begin-Dayan strategy, fearing the disastrous implications of a military policy and advocating a softer — but still hard-line — policy. Weizman, leaving the cabinet meeting on June 19, told the press: "I am going back to my office to prepare the Army for the next war."

## A Nuclear Alert?

Italian sources last week gave indications that Israel may be planning some action, in coordination with General Haig and NATO, to destabilize the Middle East.

Pope Paul, in a major address June 22, warned of the grave danger that some national leader might "go crazy" and make use of nuclear weapons in a crisis. At the same time, *Il Popolo*, the Christian Democratic newspaper with close Vatican ties, urged that international action be taken to stop Israeli Premier Menachem Begin before his policies lead to a new Middle East war.

Meanwhile, *Unita*, the daily of the Italian Communist Party, which maintains close collaboration with the Andreotti government, reported a strange alert by NATO forces, and ominously compared it to the nuclear alert during the 1973 Middle East war.

# 1. Israel Threatens To Strike The Oil Fields

A raging factional debate has broken out in Israeli intelligence and military circles over whether to activate Foreign Minister Moshe Dayan's scenario for invading and destroying Saudi Arabia's immense oil-producing infrastructure. Such a move would not only precipitate a devastating economic collapse of the West but would also block the consolidation of a worldwide Grand Design based around Arab, and in particular Saudi, cooperation over oil.

On June 2, Gen. Binyamin Peled, former commander of the Israeli Air Force, publicly called for an Israeli invasion of Arab oil fields. Reflecting the general hardening of Israel's military men, Peled also put forth outrageous territorial demands. Peled's statements are recounted in a June 13 feature in the *Jerusalem Post* by Elie Eliachar:

We have been witnessing a renewal of hawkish pronouncements by Israeli military authorities, diplomats and party pundits. But the former commander of the Israel Air Force, Binyamin Peled, has gone far beyond anything said so far by any responsible Israeli.

In his interview in *Ha'aretz* (June 2, 1978) he proposed that Israel should occupy the area up to the Litani River, that Sinai be divided in half for at least 50 years between Egypt and Israel, that Israel must keep the Jordan River, the road to Eilat and a direct line from Nueiba-Sharm-e-Sheikh to El-Arish.

Will Egypt, Syria, Jordan accept these boundaries? Peled believes he can force them to. And what about the Palestinians? Well, there just aren't any Palestinians to speak of—only Arabs living here. Those who fight us we'll kick out, or otherwise dispose of. And what of the oil problem and our dependence on America? "Well, America depends on us for her oil supply. We too can stop the regular flow of oil," Peled says.

Earlier, on May 19, the *Jerusalem Post* featured an article by columnist Yossi Goell calling for the destruction of Saudi oil fields to "counter" the new Saudi threat as a result of the U.S. sale of arms to Riyadh:

In the past, a Saudi military presence was considered marginal. In planning reactions to possible future attacks, the need to bring the war into Saudi Arabia—including the destruction of its oil fields—will now have to play a central role. . . .

It is often forgotten in the panic-stricken West that not just the Arabs can deny oil to its thirsty economies; Israel can bring about similar disruptions.

Late last year, Meir Amit, the former chief of military intelligence and currently Minister of Transportation, sounded the first call for a preemptive strike against the oil fields.

Saner elements within Israel understand that the talk by the proponents of a preemptive strike is literally insane. In a June 9 *Jerusalem Post* feature, Gideon Rafael, the former Director General of Israel's Foreign Affairs Minister, states this unequivocally:

Views voiced that preemptive action (against Arab oil) may be unavoidable to meet the looming danger go far beyond the mark. The exponents of this doctrine do not limit their strategic zeal to the frustration of potential Arab aggression. They have come to believe that the threat to interrupt the free flow of oil by a neat surgical strike against Arabian oilfields makes good political sense.

In their inanity, they fancy that such a threat will drive the U.S. back into the open arms and clenched fists of the Israeli friends whom they have abandoned. If—inconceivable as it may seem—such babble should become established political thought, we surely can expect our American friends to rush to the aid of Israel with a sizable consignment of strait-jackets.

## Red Scare

Several prominent Americans, who have been duped to sound the alarm about an imminent "Soviet-Cuban threat" to Middle Eastern oil supplies, are providing leverage to the Israeli preemptive strike faction.

In a policy statement to a New York energy conference on June 8, Nelson Rockefeller railed about the threat that "Soviet naval power" posed to "vulnerable sea lanes" in the Persian Gulf, and warned against the "Soviet-Cuban aggression extending from Angola, Ethiopia, and Yemen to impede the flow of Gulf oil."

On the same day, former head of the Joint Chiefs of Staff, Thomas Moorer, authored a *New York Times* op-ed article titled "Soviet Global Aims." The U.S., he said, has an urgent need to reach formal treaties with Iran and Saudi Arabia to defend them against "Soviet aggression."

Similarly, at a recent symposium in Washington on the Middle East strategic balance, former U.S. Air Force chief, Maj. Gen. George Keegan, praised Israel as a de facto extension of NATO in the "fight against communism." According to an account in the June 9 London weekly, the *Jewish Chronicle*, Keegan stated:

I could not have procured the intelligence on the Soviet air forces, their combat capabilities, their new weapons their jamming and their electronics and their SAMs, with five CIAs. Today, the ability of the U.S. Air Force in particular, and the Army in general, to defend whatever position it has in NATO owes more to the Israeli intelligence input than it does to any other single source of intelligence. (Israeli intelligence) has kept the Soviets at bay in the Middle East.

Rita Hauser, a New York lawyer and a contributor to the Brookings Institution Study on the Middle East, has gone so far as to call for Saudi participation, in cooperation with Israel, in the formation of an anti-Soviet bloc in the Middle East. In an op-ed piece in the June 5 *Washington Post*, Hauser states:

The building of a military alliance between Israel, Egypt, Saudi Arabia and Iran, one based on their common interest in deterring Soviet power, should be the explicit aim of U.S. policy. . . .

The true test of American diplomacy is to persuade the Saudis, and not just the Israelis, to take risks for peace. In exchange, the United States would lead the way to an alliance of Mideast states desiring to safeguard the region from Russian incursion.

### *Saudi Coup*

To set the stage for a move against Saudi Arabia, Dayan and Weizman, in alliance with a network of backward Islamic sects and tribal clans — including a traitorous group within Saudi Arabia itself — are working to overthrow the pro-American regime ruling Saudi Arabia.

At a press conference on June 5, Weizman announced that Israel is “preparing for the worst possible contingency in anticipation of a possible confrontation with the F-15s” that the U.S. is to supply the Saudis.

Weizman then traveled to London to meet with top British financiers, and then to Switzerland, where, French radio reported, he was secretly meeting with Arab officials. Among them, according to well-briefed analysts, were Saudis linked to the head of the Saudi National Guard, Prince Abdullah.

While no details of the Switzerland meetings have been made public, the Middle East desk chief of a leading New York investment house claimed to be privy to “secret intelligence documents” from Riyadh predicting an imminent “right-wing tribalist-fundamentalist coup” in the country.

Abdullah’s ability to pull off such a coup is found in his close links to the Hashemite intelligence networks in neighboring Jordan, the descendants of tribal clans set up by T.E. Lawrence to control parts of the Arab East for the British during and after World War I. To this day, Hashemite and allied tribes play a key role in the National Guard and in the periodic unrest in Saudi Arabia.

Under orders from the controller of British intelligence operations in the Middle East — St. Jean Armitage, Ambassador to Dubai — Prince Abdullah and the Hashemites could wreak havoc in Saudi Arabia.

The Saudi coup scenario was designed by Britain’s leading Islamicist, Bernard Lewis, formerly of Oxford University and currently at Princeton. Last month, Lewis claimed that “Saudi Arabia is becoming increasingly unstable and vulnerable to destabilizations by tribal elements.” Two weeks ago, Lewis chaired a conference at Princeton to discuss the resurgence of tribalism and separatist movements in the Middle East.

## 2. The Balkanization Of The Eastern Front

The operational side of the plans by the Moshe Dayan faction in Israeli intelligence, to preemptively strike against Arab oil-producing infrastructure, involves the destabilization of the entire “Eastern Front” region through manipulation of the various feuding ethnic and religious groups in Lebanon, Syria, Iraq, Iran and the Arab Gulf.

A key strategic aim of this operation is to arrange a crisis between Iran and Saudi Arabia, through playing upon the mutual paranoia of the two countries’ leaderships. More broadly, the Dayanists seek to “Balkanize”

the Mideast as means of asserting their wider political control over this region and eventually provide a pretext for moving directly against the oil fields themselves.

The basic contours of this strategy were recently exposed by maverick Israeli professor Israel Shahak in an interview with the spring, 1978, *Journal of Palestine Studies*:

*Q: If there were a new war (in the Mideast), in what way would Israel try to change the shape of the area?*

*A: Begin’s specialists on Arab affairs have spoken very openly, from the time of the war of 1973, about the necessity of dismembering Syria. By Syria they mean Syria and Lebanon together, converting it in great part to a mosaic of minority states. I think their present alliance with the Lebanese Christian Right points quite well to this. There is also a history of previous Zionist intrigues, or attempts at intrigue, with Syrian Druze in Jabal Al Druze. They really believe that by using minorities, by using the air force, by using the threat of an Entebbe sort of operation in case of what they call riots, they can hold Syria and Lebanon together in indirect — not direct — subjection.*

*Q: But you are speaking of Israel attempting to control very large areas.*

*A: The way they see it, they can work through auxiliary forces, like the British controlled India. A part they controlled themselves, but other parts they gave to maharajahs to control for them, and they hope that they will find Arabs who will play the role of Indian maharajahs.*

### *Bernard Lewis “Redraws” Mideast Map*

Shahak’s contentions are borne out by the strange activities of Professor Bernard Lewis, leading British intelligence expert on “Islamic mass movements.” Currently in Haifa, Israel, for a meeting on “conflict resolution” in the Middle East, Lewis earlier this month coordinated a private conference on “Tribalism in the Middle East” at Princeton University, where he is now resident at the Institute for Advanced Studies.

Lewis, according to knowledgeable Middle East sources, serves as a top-level policy maker for both the British and the Israelis; for weeks, he has been advising associates privately that “Saudi Arabia is ripe for tribal unrest” and that “most of the regimes of the Mideast could disintegrate rapidly under the impact of tribalism if the central authority of any country were seriously challenged.”

According to *Events* magazine, Lewis has provided vital input to Israeli intelligence for a project on “redrawing the map of the Middle East.”

### *Lebanon: Test Tube*

As Shahak points out, Israel’s activities with the Lebanese Christian right is the cornerstone of the Dayanists’ regional strategy.

Israel’s intimate involvement with Lebanese extremist groups is notorious. Arms have poured into the camps of the Falangists, Chamounists, Guardians of the Cedar, and renegade Lebanese Army militias — for months.

Most recently the Israelis have deposited enormous arms depots in the hands of the renegade army forces of Saad Haddad in the South, have relinquished sovereignty over occupied territories in southern Lebanon to Haddad's group in defiance of the United Nations, and have transferred units of the Falange from central Lebanon via the Mediterranean and Israeli territory into southern Lebanon.

At the same time, Israel has been constructing an alliance with a faction of the Lebanese Muslim Shi'ites in the South. Warnings to Shi'ite leaders about the dire consequences of cooperation with Palestinians have been combined with political bribery and pressure tactics to bring a Shi'ite faction into open cooperation with Israel. According to *France-Soir* June 21, a Shi'ite faction has this week abruptly reversed a decision taken earlier in June against cooperating with Israel.

While these events have been well publicized, what is generally not known is how extensively these Israeli-connected networks in Lebanon interconnect with networks as far east as Iran.

The head of the renegade Shi'ite faction, Lebanese Parliament Speaker Kamel Assad, has long received stipends from networks operating out of Iran. Similarly, Camille Chamoun, the former President and Interior Minister of Lebanon whom Egyptian President Anwar Sadat recently labeled "the leading British agent in the Middle East," has intimate ties with agents in Iran's Savak intelligence apparatus dating back to the days when Chamoun was an avid supporter of the British-motivated 1950s Baghdad Pact in the Middle East.

#### *The Kurds, Turkey and Iran*

One further paradigmatic case of Israeli intelligence manipulation of Middle East ethnic groups is that of the Kurds. Historical 1960s Israeli involvement with Kurdish leader Mustafa Barzani has recently been definitively exposed by Israeli Member of Parliament Arye Eliav, who itemized trips made by himself and others to aid Barzani's operations along the Iran-Iraq border.

More recently, the tell tale signs of Dayan and the British have cropped up in a series of odd Kurdish disturbances in eastern Turkey.

For weeks, the Turkish newspaper *Hurriyet* has been running banner headlines about Savak responsibility for setting in motion the Kurds and other ethnic groups to destabilize Turkey. These charges have been denied by the Turkish Foreign Ministry, and it is likely that what is in operation is a "private" intelligence nexus operating on both the Turkish and Iranian sides.

*Hurriyet's* most extreme charges have included that Savak has created an organization named KAWA, which is aiming to establish an independent Kurdish state. This group, which ostensibly interfaces with the terrorist Turkish Workers and Peasants Liberation Army, has been blamed with at least one assassination of a top-level Turkish army officer and is further accused of links with other ethnic-separatist movements in eastern Turkey.

Notably, eastern Turkey has recently been targeted by Turkish Prime Minister Bulent Ecevit for a substantial regional development program. Ecevit is now in Moscow for talks with the Soviet leadership on considerably

expanding Soviet economic aid to Turkey. Previously, Ecevit engaged in discussions on trade and development with West German Chancellor Helmut Schmidt.

It is therefore probable that Turkey is being actively incorporated into the nexus evolving out of the May Brezhnev-Schmidt trade and economic cooperation discussions, and that British and Israeli intelligence are aiming to keep this from happening.

### 3. Britain's Freemasons Behind Shi'ite Riots In Iran

The Shi'ite religious and student riots which have wracked the Iranian government in the last months and whose chief religious spokesman, Ayatollah Khomeiny, has called for the assassination and armed overthrow of the Shah of Iran, have one objective: to force a beleaguered Shah to revive the anti-Arab, anti-Palestine Iran-Israel axis under the thin guise of "anti-communism."

What is little known, though, is that the command and control centers for the destabilization of Iran are none other than certain London-based "Scottish Rite" masonic lodges which were introduced into Iran at the beginning of this century when Britain brought its brand of Freemasonry to Iran's elite. Freemasonry has a wide-spread following throughout Iran, and is also known to be the vehicle through which the Israeli intelligence organization (Mossad) and the Iranian counterpart (Savak) maintain their lines of communication.

What is at issue here is that the Shah, who backed Saudi Arabia's support for the dollar at last week's Geneva OPEC meeting, is surrounded by a financial-landowning oligarchy, historically London-oriented. Many of these landed power-brokers belong to the Freemasons as well as the quasi-religious Bahai cult which has networks in numerous Iranian cities including Teheran, and the Shah's court as well.

This Freemason-Bahai network is behind the systematic sabotage of the Shah's various industrial development and modernization efforts. According to a former Iranian political leader now residing in the United States, the Shah cannot make any independent decisions without this coterie of British-connected policy makers on hand. He referred to the former head of Savak, Nassiri, and the powerful Court Minister to the Shah, Hoveida, as being members of this Freemason-Bahai network.

#### *The Israeli Connection*

The connection of Iran's Bahai-Freemason network to Israeli intelligence circles is even easier to map. According to an American expert in Iranian studies, the Bahai cult enjoys a temple in the center of Tel Aviv and many Jews in Iran are members of this sect as well. Thus Israeli and Iranian intelligence have secured an appropriate cover for their efforts to sabotage the moves of the Shah to stabilize the Mideast and secure a future Palestinian state. The Shah is known to be in agreement

with Saudi Arabia and certain U.S., West German, and French industrial circles who wish to implement a massive development program to secure such a Mideast peace.

Recently, both Saudi Arabia and a member country of the United Arab Emirates banned Freemasonry as a Zionist front.

The case of the exiled leader of Iran's Shi'ite community is elucidating. Ayatollah Khomeiny, who now resides in Iraq, is a direct descendant of the reactionary Shi'ite reformer of the 19th century, al-Afghani, a British intelligence operative who was secretly not a Shi'ite but a member of a London-based Bahai-Masonic lodge organized by Sir Richard Burton and Wilfred Blunt of the secret service. It was this "religious" leader and his reformist movement which overthrew the Qajar Dynasty in Iran in the so-called 1905 revolution, through the manipulation of the reactionary Shi'ite population. Iran was then partitioned into three parts.

It is such an operation that British intelligence, centered in a key Scotland Yard department and related Israeli intelligence circles, are using to derail Iran from the pro-industrial, pro-Arab policies which the Shah recently has espoused.

## 4. China's Anti-Soviet Front In The Gulf

Peking dispatched Chinese Foreign Minister Huang Hua on a series of visits to Mideast capitals over the last week to mobilize an anti-Soviet front in the Gulf region, extending into Turkey. Hua brought with him offers to increase the Chinese presence in the area and at the same time, he urged closer links of the Gulf states with NATO to challenge the mythical threat of Soviet expansionism.

After his warmongering visits to Zaire and Brussels, Huang Hua visited Turkey, Iran, and Kuwait, in a tour approvingly described by the London *Times* as a "Chinese anti-Soviet offensive." In Iran, he put out the

hysterical line that the Third World and especially the Gulf states must join forces with China and NATO against the Soviets. In an interview with the Iranian paper *Kayhan*, Hua raved that "the world should realize the common enemy (the Soviet Union) and prepare themselves to stand against it."

### *Hua on Soviet Imperialism*

"It is the Soviet Union which wishes to conquer the whole world (which) is now facing its severest threat to peace," said Hua, claiming that the Soviet Union is expanding its arms factories in preparation for war. Hua called upon the Third World, including China, "to unite with the Western countries to face the aggression of the Soviet Union." The U.S., Hua pointed out, "is an imperialist country and a superpower . . . but at the moment the United States is in a defensive position while the Soviet Union is in an aggressive position, and therefore at this stage the attention of the Third World must be drawn to the domineering attitude of the Soviet Union" evident in their operations over Africa.

Hua's four-day visit to Turkey came only one week prior to Turkish Prime Minister Ecevit's first official trip to Moscow, June 21, to sign a "political document" of friendship and cooperation with the Soviet leadership. Upon his arrival in Ankara, Hua unsuccessfully tried to sell the Turks his violent anti-Soviet line and scare them off from their present moves towards political and economic rapprochement with the Soviets. While in Turkey, Hua publicly attacked the Soviets for their "aggressive, expansionist and subversive activities in the Middle East, Africa and other areas in order to encircle Western Europe" and raved that both Turkey and China "had the common duty" of resisting the Soviet threat by establishing close political and military relations. He also offered to the Turkish government Chinese military equipment to make up for the U.S.-imposed embargo against Turkey. Turkish Foreign Minister Okcun responded to Hua's hysterics by stressing that "realism and mutual trust should dominate international relations."

Hua is expected to push a similar anti-Soviet position in the British-dominated Kuwait.

## Saddam Hussein Must Stop Israeli Agent Khomeiny

*A U.S. Labor Party Memorandum to the Arab Baath Socialist Party*

*Below is a shortened version of a memorandum issued June 20 by Criton Zoakos, Director of Intelligence of the U.S. Labor Party. The full memorandum, including discussion of why "the political considerations involved in prosecuting a Shi'ite religious leader in predominantly Shi'ite Iraq...should not be allowed to acquire an anti-religious coloring," due to British manipulation of the Shi'ite faith which Zoakos documents back into the 19th century, was printed in New Solidarity on June 23, 1978.*

It is in the vital interests of the Arab nations, including the interests of the present Iraqi and Saudi Arabian governments, to put a swift end to the present ongoing destabilization operation conducted by the Israeli government against the Shah of Iran. Ironically, Assistant Secretary General of the Baath Party, Mr. Saddam Hussein, is presently better situated to strengthen the position of the Shah of Iran against Israeli intelligence (Mossad) operations than the Shah himself.

The Iraqi leadership must bring to trial and silence the Iranian Shi'ite leader Ayatollah Khomeiny, who is conducting his anti-Shah operations out of Iraq, on the grounds that Khomeiny is an agent of Israeli intelligence.

The Iraqi authorities would be aided in their task by a fresh reconsideration of the following set of well-known facts: first, the strategic objectives behind the drive to destabilize the Shah and, second, the undercover networks involved in this intelligence war. Unless the following points are taken seriously, an overt anti-Arab, anti-Palestine, Israel-Iran axis will emerge under the thin cover of "anticommunism."

First, the strategic objective of the attacks against the Shah by the Shi'ite clergy, the so-called Tudeh (Communist) Party, the Bahai sect, and the Mossad-connected networks inside SAVAK, the Iranian secret service, is aimed at upsetting the power arrangement which brought the Shah to power in the 1950s. As is known, that arrangement was primarily based on the understanding that the rival pro-American and pro-British forces in the Iranian elite would share power on a 50-50 basis.

Thus, the pro-American Shah Reza Pahlevi, far from being the all-powerful autocrat that he is presented to be in the Western press, is in fact prisoner of a financial-landowning oligarchy, historically London-oriented. These oligarchs, mostly associated with the Bahai quasi-religious sect, have been the main force behind the systematic sabotage of the Shah's various industrial development and modernization efforts. Moreover, it is their tyranny over the economic and political life of the country for which the Shah, impotent in the face of his compromised association with them from 1954 on, takes the blame.

The present anti-Shah pressures are designed to upset the 50-50 arrangement and to give overall policy control to the forces associated with Israeli intelligence and the Winston Churchill III-Margaret Thatcher wing of the Tory party in England. The policy that these forces want to impose on Iran runs simultaneously on at least the following levels: first, create a firm anti-Arab, Israel-Iran axis; second, remilitarize CENTO under Iranian hegemony which, though anti-Soviet in language, will be aiming at creating Arab-Persian conflicts in the Gulf, assassinating former Pakistani Prime Minister Bhutto, destabilizing India and introducing, with the help of forces allied with Gen. Zia in Pakistan, Chinese forces in the general Near East area; third, foment a conflict between Iran and Saudi Arabia over oil policy and thus bust up OPEC.

Israeli intelligence is participating in these operations intensively for the obvious reason that, if these operations meet with success, the immediate result will be that West German, French, and American industrial interests which, along with Soviet forces, have a common interest in rapidly industrializing the Arab Middle East and in upholding the rights of the Palestinian people, will be squeezed out of the area and replaced by a combined British Tory-Chinese presence. Such an eventuality, quite apart from its deadly consequences to world peace, would put an end to the Arab nations' aspirations for modernization and industrialization.

That is why it is in the vital interests of the Baathists to provide flanking support to the Shah of Iran against the Israeli-directed destabilizations at this time.

#### *Profile of Ayatollah Khomeiny*

On the issue of Ayatollah Khomeiny: no illusions can be entertained at this point on certain painful tasks that remain to be performed to rectify certain unsavory British operations that have been carried out against the Islamic faith, during the past two-and-a-half centuries.

In point of fact, the reputed Shi'ite Imam, Ayatollah Khomeiny is a phony. We have in our hands accumulated evidence pointing to the possibility of his being controlled by London's Scottish Rites Masonic lodges, through various control points in Haifa, Tel Aviv, Teheran, Qum, and elsewhere. The task of producing the hot, "dead body" evidence still remains the job of the Iraqi law enforcement authorities. The area of investigation, however, remains clearly circumscribed:

*Item One:* Since last fall Ayatollah Khomeiny, the Shi'ite Imam has been continuously fomenting riots against the Shah. Despite the Shah's repeated efforts at reconciliation, Khomeiny is assuming a more and more provocative posture. It can be proven that each time Khomeiny increases the pressure, a number of other simultaneous operations are launched against the Shah. These operations bear all the features of coordination.

*Item Two:* The network of intelligence specialists involved in these operations includes the Bahai sect networks in numerous Iranian cities, including Teheran and including the Shah's Court, the Bahai networks in Haifa and Tel Aviv, and their associates in London through the Scottish Rites Masonic networks and, possibly, a certain department of Scotland Yard. It also probably includes Israeli intelligence abroad and such joint Mossad-British intelligence "cutouts" as Robert Swann of the European-Arab Dialogue and Robert Moss of the *Daily Telegraph*. It also includes former CIA circles associated with James Jesus Angleton, former Middle East desk chief for the CIA who, in concert with Israeli and British intelligence, has been acting as a traitor to United States interests.

*Item Three:* There is evidence to indicate that the intellectual authors of this operation are associated with certain Masonic networks among the Second International friends of the Israeli Labor Party around the so-called "Paul-Henri Spaak" circle of NATO. Through the "Moral Rearmament" crusade, the Red Cross, and associated personnel, this group is presently studying and developing numerous destabilization scenarios for Africa and the Middle East, based on "ethnic, religious, and tribal conflicts."

A key gamemaster in this network of controllers is the notorious "Arabist" Bernard Lewis of Princeton University, one of the most prominent members of the "Israel lobby" in the United States, which has been mobilized to undermine American Middle East policy since President Carter's decision to sell arms to Arab nations.

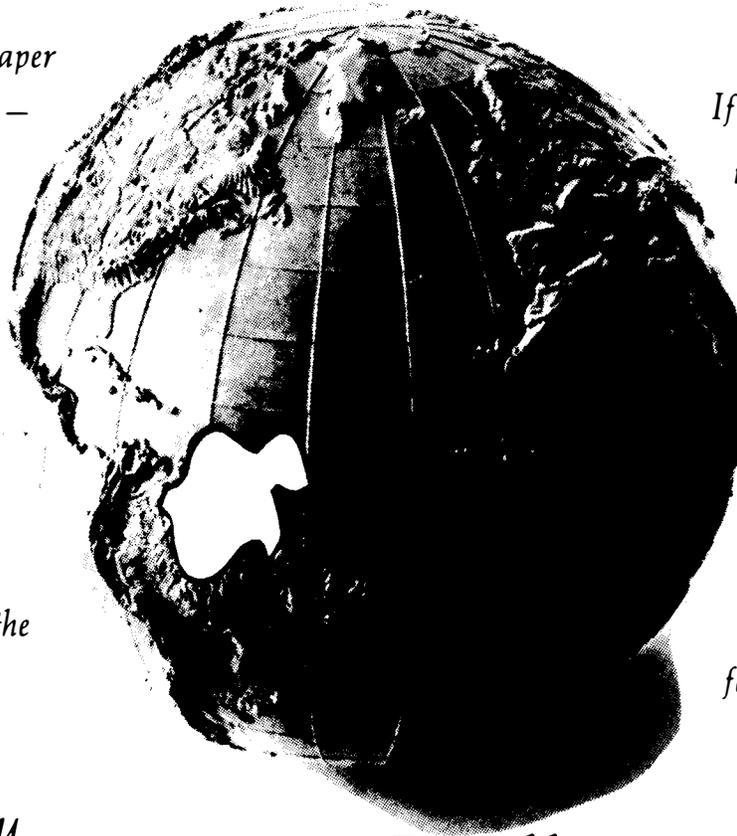
*Item Four:* Since the 1975 treaty accords between Iran and Iraq, Iraq has been extremely vulnerable to intelligence penetration under the guise of "religious pilgrimage" of Shi'ites and Bahais to the city of Najaf, thus providing easy and uncontrollable avenues of access between Khomeiny and Israeli intelligence.

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EXECUTIVE INTELLIGENCE REVIEW SPECIAL REPORT  
DAILY ENERGY INTELLIGENCE BULLETIN  
THURSDAY, JANUARY 11, 1978

LEADING U.S. BUSINESS DAILY CALLS FOR CUTOFF OF NUCLEAR COOPERATION WITH INDIA

JAN. 11 - THE WALL STREET JOURNAL, A LEADING U.S. BUSINESS DAILY, RAN A MAJOR EDITORIAL TODAY CALLING ON THE CARTER ADMINISTRATION TO CUTOFF NUCLEAR COOPERATION RELATIONS WITH INDIA. IN A SCATHING DENUNCIATION OF THE CARTER VISIT TO INDIA, THE "OPEN MIKE" INCIDENT, AND ABOVE ALL HIS COSMETIC CONCESSION THAT HE WOULD AUTHORIZE SUPPLY OF ONE SHIPMENT OF ENRICHED URANIUM TO INDIA, THE JOURNAL STATES: "WHILE THERE ARE AT LEAST SOME ARGUMENTS FOR ENDING NUCLEAR COOPERATION COLDLY AND BLUNTLY AS THE CANADIANS DID AFTER THE INDIAN EXPLOSION, THE JOURNAL CONCLUDES 'IT IS EASY ENOUGH TO BELIEVE THAT MR. CARTER DOESN'T NOTICE MIKES AND POLICY IMPACT SO CONFUSED HE THINKS A LETTER WILL KEEP HIS HANDS OFF. PERHAPS THE CANDIDATE CARTER WHO PROMISED NEVER TO TELL US A LIE WAS USING THE PLOT TO MISLEAD THE AMERICAN PEOPLE."

WHAT IS REALLY GOING ON?

WHILE THE DUST HAS NOT YET SETTLED ON THE CARTER TRIP, BRITISH PRIME MINISTER JAMES CALLAGHAN HAS ARRIVED IN INDIA TO SUPPOSEDLY EVOLVE THE COMPROMISE FORMULA TO BRING INDIA INTO AN ACCEPTABLE STATUS ON THE NON-PROLIFERATION QUESTION. WHILE THE U.S. STATE DEPARTMENT TODAY ADMITTEDLY DENIED ANY TRUTH TO THE STORY THAT CALLAGHAN HAS SUCCEEDED WHERE CARTER HAS FAILED, AS PRESENTED BY THE LONDON TIMES, A COMPROMISE AGREEMENT WITHOUT TOTALLY DISCLOSING DETAILS AT THIS TIME, TODAY'S SECRET PROMISES AND THAT CALLAGHAN HOPES TO TAKE DESAI'S SECRET PROMISES AND CONTRACTED FRENCH NUCLEAR REPROCESSING PLANT, CALLAGHAN ARRIVED IN PAKISTAN JAN. 11. ONE DAY AFTER THE NEW YORK TIMES ANNOUNCED THAT FRANCE HAS REQUESTED THE PAKISTANIS CONSIDER ALTERATIONS IN CURRENT CONTRACTS.

MIDWEST COLD FREEZES OHIO COAL STOCKPILES

JAN. 11 - AS THE NATIONAL STRIKE OF U.S. COAL MINERS AND COAL-HANDLING MACHINERY, A SPOKESMAN FOR THE ELECTRIC UTILITY TOLD THIS NEWS SERVICE THAT THE CUSTOMERS HAVE BEEN ASKED TO VOLUNTARILY CUT THE FACILITY IN SHIPPINGPORT, PA. HAS BEEN SHUT A DAY, HOWEVER A SECOND COLD FREEZE IS PREDICTED FOR THE WEEKEND. THE ONGOING MINERS' STRIKE IN FRESH COAL TO REPLACE FROZEN COAL, THE OHIO STATE ENERGY OFFICE DURING TV COAL DELIVERIES TO RESIDENTIAL USERS

A SPOKESMAN FOR THE U.S. DEPARTMENT OF ENERGY HAS MADE A STATEMENT HE ADDED THAT HE WILL DO NOTHING IN THE PRESENT STRIKE PRODUCED BY THE ONGOING STRIKE AND UNTIL THEN THE GOVERNMENT CONSERVATIVE BRITISH FIRING OPPOSITION

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