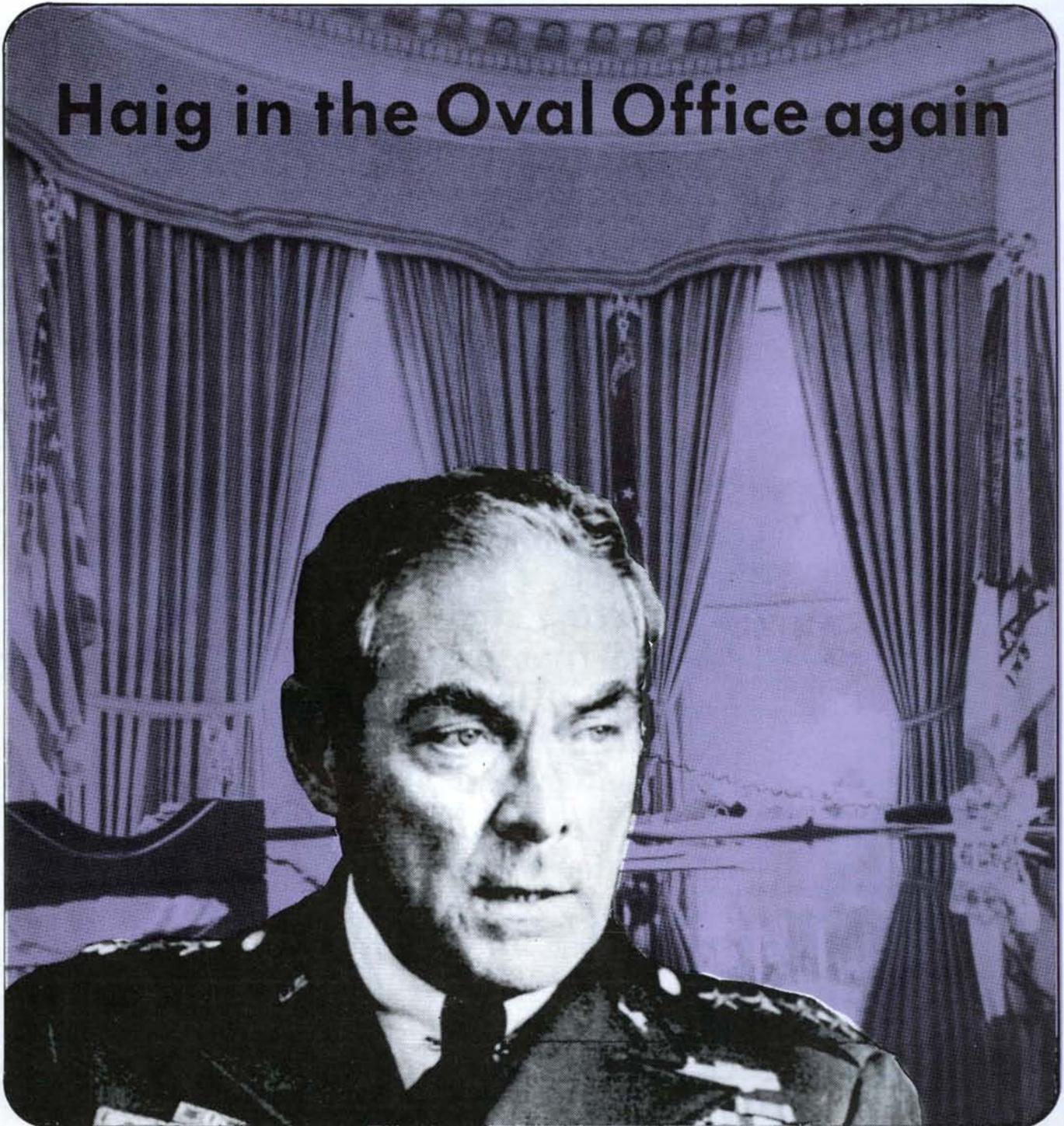


# EXECUTIVE INTELLIGENCE REVIEW

March 27-April 3, 1979

Turkey:  
Test case for the EMS

## Haig in the Oval Office again



New Solidarity International Press Service

\$10

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# EXECUTIVE INTELLIGENCE REVIEW

## Haig in the Oval Office again



The present policies pursued by the Carter Administration are the policies which would be pursued by a Haig Administration were General Alexander Haig in the White House today, asserts J. Bowyer Bell, Columbia University terrorism expert and associate of Zbigniew Brzezinski, in an interview in this week's SPECIAL REPORT, our cover story on the Haig-for-President boom now underway in the suites of the New York Council on Foreign Relations, Georgetown University's Center for Strategic and International Studies and due to break into the media for the "public" possibly in June, when Haig retires from NATO. What is the Haig movement? What does it stand for? And how much influence does it have over the Carter Administration today (several of Carter's own cabinet officers are reportedly Haig backers)? You'll find the answers in our special Haig coverage, featuring exclusive interviews with Haig's associates, the Aspen Institute and Walt Rostow, and excerpts from Harlan Cleveland's master plan for the third phase of NATO.

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### **Fed rams through HongShang bank grab**

Are the Federal Reserve Board and its chairman, G. William Miller, on the road to "bankgate"? The Fed's lightning approval of the takeovers of three major U.S. banks by British-based banks — including the drug-trade-linked HongKong and Shanghai Banking Corporation — has raised eyebrows and an odor of scandal. Among the questions raised by the Fed's decision: Did the Fed suppress results of an internal investigation into the HongShang's drug dealings? And, did British banks apply blackmail tactics to secure U.S. bankers' support for the takeovers?

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### **There is no oil shortage**

The Department of Energy and the oil companies are still saying there's an oil shortage, but Energy editor William Engdahl has totaled up the figures and, he says, there should be plenty of oil to satisfy current demand. Engdahl's exhaustive treatment highlights our ENERGY package, including a look at the current situation in OPEC, the movement for a producer-consumer conference to work out the wrinkles in oil supplies, and a proposal to reorient the major U.S. oil companies as development-directed exporters of projects called "nuplexes."

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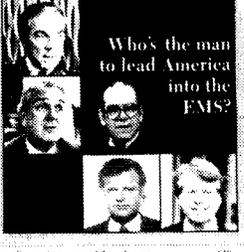
### **Turkey: test case for the EMS**

Turkey's adoption of sweeping austerity measures last week was the result of West German and other Europeans' failure to deliver on a financial aid package promised at the January Guadeloupe summit. What does the Turks' decision mean for Turkey, and for the EMS? Our MIDDLE EAST report this week is an in-depth report on the Turkish situation by Nancy Parsons, which includes a review of Turkey's relations with NATO, its debt situation, and possible options for Prime Minister Bülent Ecevit in the Middle East.

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### **Coming...**

Part two of the Riemannian Economic Model, featuring actual computer-generated data based on application of the model, economic surveys of France, Ireland, and Cuba, and a major profile of the world's steel industry. Three-part Plus: The program of French President Giscard's coalition, the UDF, and a look at Greek economic diplomacy.

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# A June deadline for Europe

"At least five of the nine EEC governments will be lucky to survive until the next summit in June," announces the latest issue of the *Economist* magazine in its commentary on the decision taken at the March 12-13 European Community heads of government meeting to formally launch the European Monetary System.

The *Economist* is the mouthpiece of the City of London-based opposition to the peace through development strategy associated with the EMS since it was conceived last year: typically, the threat is couched in the form of a prediction. The five targeted cabinets are those of EMS founders, West German Chancellor Schmidt and French President Giscard; the cabinets of Irish Prime Minister Jack Lynch and Italy's Andreotti; and the British Labour government under James Callaghan.

In Callaghan's case, the decision to depose him is one with the decision to install an Alexander Haig presidency in the United States. The issue is not Callaghan's position on the European Monetary System, but the strategic requirements to install a suitable Tory government in London to lead the Cold War, militarist reorientation against the Soviet Union that Haig would direct from the Washington side.

The pressure on Western Europe is threefold. First, London and Co. want to transform the new monetary alliance into an instrument of austerity — an adjunct to the bankrupt International Monetary Fund. They have geared their approach to intersecting existing weaknesses of the EMS founders and to exploiting control of the bulk of the international media.

Second, again using the media to retail the slander that the Federal Republic of Germany under Helmut Schmidt is capitulating to the Soviets (being "Findlandized"), Henry

Kissinger, James Schlesinger and other Haig cronies are attempting to shatter the two key elements of Schmidt's EMS policy — the detente accords signed with Soviet President Brezhnev last May, and Schmidt's commitment to exporting nuclear technologies for economic development of the Third World.

Third, the political groupings around Otto Habsburg and their "left" or "greenie" counterparts have launched a drive to create what a U.S.-based terrorist controller termed "mass support for fascism" in Europe.

The most dangerous signal is that West Germany and France are compromising on vital issues, hoping to ease the threats and blackmail against Bonn. High-level West German sources told *EIR* that the Bonn Finance Minister agreed at the recent International Monetary Fund interim committee meeting that West Germany would halt its attacks on the IMF for three months. If this deal sticks, the sources said, "Turkey is finished, and Africa will be set back 20

years."

Moreover, there are growing indications that neither Schmidt nor Giscard intends to mount a real fight against the Camp David war pact, even though French Foreign Minister Francois-Poncet scored Carter policy in the Mideast as "not peace but bilateral pacts" in a Paris press conference March 20.

The world was spared thermonuclear holocaust this past month because the two European leaders refused to toe the Washington-London-Peking line when China invaded Vietnam. But when the Kremlin map-watchers see no independent European buffer against a Haig war policy, nothing will remain to restrain them from an early decision to go to thermonuclear war. If the Europeans fail to blast the U.S. military pact with Israel going under the name of "Camp David," their governments may not last until June — or war may overtake their opportunity to make that decision.

## The Week in Brief

The **Soviet Union** has pinpointed **NATO blackmail of European governments** and the recent public adoption by the United States of a "**counterforce**" **military strategy** as direct strategic threats to the Soviet Union.

In a three-part series in *Red Star*, a leading Soviet military strategist, Major-General Simonyan, identifies the strategy as a **U.S. first-strike scenario**. "A state which has as its aim the destruction of the military objectives of its 'potential enemy' must strike first, since in the opposite case

its nuclear warheads will hit empty silos."

Simonyan also warns of U.S. pressure against other NATO members, citing provisions of the NATO treaty under which the U.S. can assume control under **conditions of "internal disorder"** in Europe.

And a Novosti article made available to this news service details how NATO is endangering world peace through (1) a conventional arms buildup; (2) bringing the Mideast into NATO — i.e., Camp David; (3) the military flanking of the socialist na-

tions through the NATO-China link; and (4) the development of exotic new weapons.

Current NATO strategy, as outlined by British General Hackett, envisions a steady encroachment by NATO of the Soviets' global strategic position, leading to a decisive confrontation sometime in the early to mid 1980s.

\*\*\*

At the **March 19 meeting of European Community finance ministers**, the Belgian delegation put forward the position that the European Monetary System will not work without **serious austerity measures**. This has of course been Britain's line since the EMS was first proposed last July. The ploy is designed to exploit the **weaknesses of the EMS founders**, typified by the Barre government under French President Giscard, which stands for a domestic austerity policy completely at odds with the aims of the new monetary system.

**British Finance Minister Denis Healey** piped up to announce that London would veto any economic aid to Ireland and Italy that was not matched dollar for dollar with EMS aid to the United Kingdom. Rather cheeky, old chap — **Britain isn't even in the EMS!**

\*\*\*

Turkish Prime Minister Bülent Ecevit issued a **sharp attack** against the International Monetary Fund March 21, charging that the Fund is promoting **policies aimed at stopping economic development**. Turkey, which was recently forced to adopt a stringent austerity package by the Fund (see MIDDLE EAST), requires a policy of increased production and investment, Ecevit said.

Criticizing Turkey's **West German and other European allies** which failed to come through on promised aid to the debt-strapped country, Ecevit stated: "If lack of interest on the part of our allies regarding Turkey's economic problems continues, we would in-

evitably, not because of choice but because of necessity, have to introduce changes in our foreign economic relations. And this could, in due course, have a certain impact on our external political relations too."

The Turkish situation is a major **test case** for the new **European Monetary System's commitment** to financing Third World development; so far, the EMS has deferred to the IMF on the Turkish issue.

\*\*\*

In the aftermath of the West German NATO debate we reported in our last cover story, **Henry Kissinger** stepped in personally to threaten the Schmidt German government for its opposition to the London-backed international war buildup. According to Italy's *Il Giornale*, Kissinger sent a letter to West German "friends" warning that Schmidt was **"capitulating" to the Soviet Union**. Meanwhile a meeting of the **Atlantic Bridge** institution "offered" the Germans the opportunity to collaborate in **NATO plans to secure the Persian Gulf**. West Germany was also proffered a chance to work with James R. Schlesinger in seeking "alternate" **non-nuclear** sources of energy.

One recipient of the Kissinger missive may have been **Otto Habsburg**, the would-be European emperor (see our **Counterintelligence** report). Habsburg's collection of avowedly fascist political groupings, which announced at its last meeting in summer 1978 the aim of splitting the continent into warring "ethnic" regions, will be holding a **strategy meeting in Munich** in late March.

\*\*\*

Stilled by the British-influenced U.S. national news media, the presidential campaign of Lyndon H. LaRouche, Jr., the U.S. Labor Party chairman who is closely identified with the EMS and is the leading U.S. proponent of detente and war avoidance policies, has begun successfully taking its

message to the public with a paid media campaign that is unique in the history of U.S. "third" parties. The campaign also differs from prevailing Democratic and GOP media practice in its focus on in-depth treatment of issues rather than "image-making."

The LaRouche approach is typified by a taped television broadcast March 19 in Detroit, a half-hour discussion of U.S. Mexico policy in which he blasted the Carter Administration's policy as "un-American" and developed an alternative approach focused on helping Mexico to become a high-technology nation.

The LaRouche media drive has also included paid advertisements in several major daily newspapers, and has resulted in greatly increased public exposure and media coverage for the candidate.

\*\*\*

Not everyone on Capitol Hill is buying Mr. Schlesinger's "Crash of '79" **Oil shortage hoax**, reports our Washington bureau. So, last week the **Senate Energy Committee held hearings** on the impact of the Iranian oil loss, and who should pitch in for Schlesinger but the **Central Intelligence Agency** of Stansfield Turner. According to a classified CIA report released at the hearings by Sen. Mark Hatfield (R-Ore.), "Unless Iranian production is seen restored to a level of about three to four million barrels per day, or oil consumption is restrained, stocks will fall to abnormally low levels by midyear." The report says that "This will inevitably lead to **increased rationing** of supplies by oil companies, **higher prices** and **curtailed economic growth**."

At the same hearings Robert N. Delph, president of Exxon International, denied **contentions that oil companies are overstating the seriousness** of the Iranian situation and deliberately hoarding oil supplies to drive up prices. He did admit that **Exxon is doing a brisk business at increasing profits** in Europe as a result of events in Iran. (For the hard facts on oil supplies, see our **Energy** section).

### Teamsters prepare for national strike

As we go to press, the International Brotherhood of Teamsters is preparing for a national strike when its master freight contract expires March 31. Requests for strike authorizations went out to all master-freight locals early last week. Two leaders from each local were summoned to Washington for a meeting on the negotiations.

The media talks about the Teamsters "backing down" from their wage-benefit package demand of between 50-60 per cent over the three-year life of the contract. But few on the inside expect much movement.

The Carter Administration appears set on forcing a strike rather than allowing the Teamsters to break its 7 per cent wage price guideline.

Teamsters officials are angry over rebukes from Carter people such as inflation czar Alfred Kahn. Kahn, after refusing to budge on the guidelines, last week told business leaders that the Administration would punish both the Teamsters and the trucking industry if they broke the guidelines, by pushing "with due haste" for full deregulation of the industry. The Interstate Commerce Commission (ICC) reiterates the threat that it will not allow trucking companies to pass along wage increases through new rate hikes.

Teamsters and industry officials term the threats blackmail.

Union officials fear that the trucking industry has been "gotten to" by Carter people. Industry

negotiators show no willingness to buck the guidelines. They have made a wage offer reportedly below 7 percent.

As the master freight negotiators met in Washington, the Machinists concluded a last minute agreement with United Airlines in excess of 30 percent over three years and with an unlimited cost of living escalator. This puts pressure on Teamster negotiators to hold the line on the union's substantial demands.

The Teamster leaders see themselves being forced into a strike — the first real national strike under the master freight agreement. They see the situation as far more dangerous than in 1976, when they won a hefty boost after a brief strike. The industry gave them a hard time but saner political forces in and around the Ford Administration prevailed. This time Carter is firmly committed to carrying out the austerity program for the U.S. dictated by the International Monetary Fund.

The top Teamster leadership continues to debate strategy. Several Teamsters' leaders press for a political mobilization of the country against austerity. They say that the Teamsters can win a major victory, if they abandon a simple "trade union" strike strategy and press political demands. These leaders continue to explore the idea of using the newly formed European Monetary System and its potential to generate a U.S. economic recovery as a means of explaining contract demands to the American people.

### From bad to worse

True to his recent promise, AFL-CIO President George Meany filed suit in federal court last week to have the Administration's wage-price guidelines declared illegal. Meany claims that the government use of procurement powers to force compliance to wage standards takes on the character of a mandatory but "unbalanced program" that emphasizes enforcement of wages. Meany's solution, as proposed in an AFL-CIO policy resolution passed last month by the Federation's Executive board, is a system of war-time-like mandatory controls. This, the AFL-CIO maintains, will guarantee "equality of sacrifice."

Not surprisingly, the AFL-CIO court action has received the enthusiastic support of 14 Republican Senators, including Sen. John Heinz III (R-Pa.) a leading force behind the Presidential campaign of Gen. Alexander Haig.

— L. Wolfe and M. Moriarty

# Haig in the Oval Office Again

*Carter Administration already adopts Haig's policies for fascism and war*

The boys at the New York Council on Foreign Relations have made their decision on the 1980 presidential question. They are going with General Alexander Haig and the Nazi-style policies of military dictatorship.

The decision comes straight from British oligarchical circles. The New York Council on Foreign Relations is the center of Anglo-American policy-making and was first established as a branch office of the Royal Institute for International Affairs. Haig's candidacy is a candidacy for war.

But no one, not the Council on Foreign Relations, not Energy Secretary James Schlesinger, not Great Britain, is waiting for Haig to formally assume the presidency.

The Carter Administration, in its policy commitments and outlooks, is already nothing more than a prelude to Haig's tenure in the Oval Office. That much was admitted by a colleague of National Security Advisor Zbigniew Brzezinski's — Columbia University's Bowyer Bell. What are these policies? "Anschluss"-style military aggression to force confrontation with the Soviet Union, and Schachtian economics at home and abroad.

Consider the events of the last week. The conclusion of Camp David has committed the Carter Administration to a policy of military alliance with Israel, even to the extent of offering the government of Menachem Begin a U.S. nuclear umbrella. The weapons negotiations in this "peace" treaty between Israeli Defense Minister Ezer Weizman, his Egyptian counterpart Hassan Ali, and U.S. Defense Secretary Harold Brown show that the United States is committed to a policy of busting the Organization of Petroleum Exporting Countries through any means — military or otherwise — in order to wreck the economies of Europe and Japan. In the light of what has developed at the same time in Southeast Asia, Iran, Turkey, Morocco, and southern Africa, the Mideast agreements complete an effort to encircle the Soviet Union with a hostile combination of powers based on the axis alliance of Washington, Tel Aviv, London, and Peking.

This is geopolitics, a doctrine most prominently

associated in the Carter Administration with Energy Secretary Schlesinger and his friends in the Committee on the Present Danger who are all avowed Haig backers, just like the "liberal" Aspen Institute, Fritz Kraemer, and the London *Economist*. Even among the ranks of the Carter Cabinet and within the Republican Party one can find Haig supporters: Secretary of State Vance and Republican stalking horses for Haig, Howard Baker and George Bush.

Put briefly, the geopolitical doctrine was designed by Halford MacKinder and the founders of the British Round Table to prevent the emergence on the Eurasian landmass of an industrial and technological progress-oriented combination of powers — much like the European Monetary System (EMS) today. The geopolitical policy of balkanizing the landmass into a divided mess of petty states has its economic component in the policies developed and pursued by Hitler's financial advisor Dr. Hjalmar Schacht. Divert a society's credit and related resources away from development of the work force and capital equipment through technological progress and into a zero-growth mode cannibalizing productive resources to maintain the political integrity of previous extensions of credit in the form of debt.

This is fascism which the Aspen Institute's Harlan Cleveland predicts is the next phase for the member nations of the NATO alliance.

## **Bringing these policies home**

These policies — already applied to the Third World — lead to war. Now the U.S. is to be submitted to the same policies.

This week's Camp David energy summit was little more than a statement by the Carter Administration that it is committed to this policy turn. Schlesinger already had a deal in his pocket that the oil companies would absorb the losses of some of their foreign operations and support Haig in exchange for the price rises they will get through a phased decontrol of oil.

By hook or by crook, Schlesinger is going for an energy crisis which is the rationale behind legislating

---

*Alexander Haig would pursue were he in the White House, and predicted the rise of overtly fascist movements to power in Europe.*

**Q:** *How do you see the situation in Iran and the surrounding area developing?*

**Bell:** Iran will have unstable conditions for a couple of years. The rebellion in Afghanistan will grow and receive strong outside support although the prospects for immediate success are not encouraging. In Pakistan, we're dealing with two sets of people which means instability.

Now nobody can rule Iran. Khomeini can't rule, although you have to admit he's really dedicated. Bazargan can't hold power. The danger is that down the road, say in two years, there could be a self-styled, left-wing military coup like in Ethiopia, what I call the pious left, or the Algerian model. The danger does not come from the Tudeh party, the Communists. They are not significant, they are completely out of touch with the dynamics of the situation.

The Maoists in Iran are much more important and one of our assets — you know, they would be extreme conservatives if it wasn't for the Shah; that's their profile. They might have been selling condominiums. I personally know a lot of key people in the Fedayeen in Iran. They call themselves Marxists-Leninists but don't take that seriously. What's key is that they are staunch anti-Soviet fanatics and will be quite useful to us.

All in all, we've come out way ahead of the Russians in the Iran situation. The Russians are in big trouble. Despite the problems we face, we're in good shape — much better than we had with that megalomaniac the Shah. For example, the Islamic revolution's spillover into the Muslim areas in the Soviet Union will be explosive, will cause the Soviets grave problems — analogous to the freedom movements we've organized in Eastern Europe.

Always keep in mind geopolitics — that's crucial. Halford MacKinder and Karl Haushofer were absolutely right. It's the old question of the world island, the Eurasian land mass. We must prevent the Russians from dominating the Eurasian land mass. That's the big game. That's the context from which every political question in the world must be viewed. Whatever we're able to consolidate in Iran must be seen from the point of view of geopolitical struggle.

**Q:** *What role do you see the ethnic and tribal groups playing in the Iranian situation?*

**Bell:** They're of course extremely important, not only in Iran, but the role they're playing in the war against Soviet communism. Already our contacts in the Iranian government are cooperating with us in facilitating the movement of certain Muslim tribal groups armed to the hilt across the border into Afghanistan. The Turkoman tribe on the Soviet-Afghanistan border is important. So

various programs for "energy self-sufficiency" and labor-intensive employment. Vice President Mondale is back stumping for his make-work programs. The Conference of Northeast Governor's has resurrected its scheme for an Energy Corporation of the Northeast for energy self-sufficiency in a deindustrialized Northeast.

"The United States is on a course to becoming a military dictatorship," reads a statement issued March 17 by 1980 presidential candidate Lyndon H. LaRouche, Jr. "We are heading rapidly toward World War III. In effect, Haig is already in the White House; the boys in New York have fixed it. Unless France and West Germany openly oppose this lunacy, unless they openly denounce the government of the United States, we will have World War III... It is a serious question as to whether the political forces abroad have the political courage and perception to do what's necessary."

Haig is making policy in the Oval Office again and the following report documents this as fact. The career of the paper clip general is presented, his supporters are listed, and his policy — foreign and domestic — is outlined as he would implement it and as it is now being implemented by the Carter Administration.

—Kathy Stevens

---

## Zbig colleague sees fascism next in Europe

*In an interview made available to this news service, J. Bowyer Bell punctuated a discussion of foreign affairs predicting the rise of mass fascist movements in Europe in the near future. Bell, a colleague of Zbigniew Brzezinski, is a "terrorism" and "insurgency-counterinsurgency" specialist associated with the Columbia Institute for the Study of War and Peace and the British International Institute for Strategic Studies; he is billed as "an advisor on terrorism to over 50 governments." During the interview, Bell emphasized that the domestic and foreign policies now being pursued by Jimmy Carter are exactly those that*

are the Iranian Arabs, the Baluchis, and, of course, the Kurds. The Kurds will grab what they can get. All of them are assets. The Muslim restoration will soon hit the Soviet Union as you will see.

Of course, it's necessary for us to maintain an island of Western culture in the area. We can't go all the way back to the 13th century. That's why we're pushing the women's liberation movement, that's the reason Kate Millet and Ralph Schoenman were there. In order to keep control, English speaking people in the Khomeini camp and other centers of power must have freedom of action. In the insurgency against the brutal and arrogant Shah, American and British-born agents were limited in what they could do. So we had to work almost solely through American and British-educated Iranians, especially around Khomeini.

**Q:** *Speaking of the ethnic groups and insurgencies, do you anticipate anything along these lines in Europe?*

**Bell:** In the immediate future there is going to be a big wave of terrorism across Europe. If you were a betting man going to the race track you could take my tip and come out a big winner (laughing). Sort of a sure bet if you know what I mean. In Italy, terrorism will keep up and escalate sharply, and watch for the rise of the right.

One of the keys is what we call the "ethnic pools." The Turks in Berlin, for example: the Turks in Germany are not being absorbed and that creates tinderbox conditions. This will cause no end of problems for the Schmidt government. Also the West Indians in West Germany. You know the West Indians' profile — aggressive and violent! The Germans are going to have a real problem on their hands!

Of course, there will be a reaction to this. There will be a rise again of classical fascist movements. I expect the fascist right to take power in Italy within a couple of years. In the tradition of Mussolini — the bankrupted middle class, the uprooted workers, the underclass will be the shocktroops, and strong fascist leaders will emerge. There will be neo-Nazism in Germany that can take power also. The conditions are ripe and all the old inhibitions have broken down. Ethnic terrorism will be the spark and many of the ethnics themselves will later try to join fascist forces. It's definitely going to happen.

**Q:** *How do you view Carter's performance as President: Do you think Alexander Haig has a chance?*

**Bell:** I think Carter is now implementing the very same policies that Al Haig has advocated and would pursue if he were President. Carter has many accomplishments under his belt, especially recently. Our China policy has proved a smashing success. Carter's accomplishment with Camp David is tremendous, of great strategic significance. We would stick with Carter for now. Al Haig would be excellent. The only thing I worry about is that the last Republican military man (Eisenhower—ed.) turned out to be a total disaster.

# A sharp look at

Alexander Haig is now the leading candidate to succeed Jimmy Carter as President of the United States. His candidacy is being promoted by the British oligarchy through a number of British institutions and networks, including the Royal Institute for International Affairs, the British-based Ditchley Foundation, the Lazard Freres investment bank of London and New York, the Tufts Fletcher School of International Diplomacy, the inner circle of the New York Council on Foreign Relations, the Anglo-Zionist Committee on the Present Danger, Her Majesty's Order of St. John of Jerusalem (of which, according to Mexican sources, Haig is a secret member), and the Heinz family of Pittsburgh.

An attempt is being made to see Haig, the candidate for war, as a great American Republican military man in the tradition of Douglas MacArthur and Dwight David Eisenhower. The British public relations specialists have got to be kidding. That image just won't wash.

Far from greatness, Haig has never even attained mediocrity in any of his endeavors.

Hardly an American — despite the coincidence (unlike Henry Kissinger) of having been born in this country — Haig is a complete acolyte of the British aristocracy.

Republican? Haig has never been a member of the party and has a record of doing a hatchet job on leading Republicans, including his notorious inside job on Richard Nixon in the Watergate affair.

Military commander? Not only has Haig never commanded men in battle, but this British created General has tried to force upon NATO policies that would ensure defeat for the United States and Europe in a general thermonuclear war. Wags say that the only deployment the General has proved in the least competent is moving the paper clips from one secret NATO document to another.

## The British are orchestrating the campaign

The Haig campaign is a straight British operation — and carefully orchestrated. It was kicked off last year — before European pressure, especially from the West Germans, forced Haig out as head of NATO — with a warmongering appearance at Ditchley Park 11 miles outside London. At an event sponsored by the Ditchley Foundation, a planning body for a "New Dark Ages," composed of the Anglo-American inner oligarchic elite and numbering among its members U.S. Secretary of State Cyrus Vance, Lord Tweedsmuir, Lord G, Booth, Paul Nitze, and Amory Houghton, Haig demanded a massive NATO buildup and for the NATO

# Alexander Haig's career

alliance to become immediately involved in Anglo-American military operations in the Middle East and Africa in behalf of the World Bank and IMF — and in abrogation of the NATO treaty. Haig's declaration of intent to become the "War President of the United States" opened a British propaganda barrage that later induced the dangerous, if pathetic President Carter to adopt the very same policies.

Since that time, Haig has been sponsored in a number of speaking engagements designed to test the waters for his presidential candidacy by British networks in the

**"Alexander Haig is the hero of our times. Sound Jesuit training. What an honorable man. What a martial spirit. Never dazzled. The world's leading opponent of Soviet totalitarianism. What principles. Alex agrees completely with the famous saying I used to have on my desk at the Defense Department: 'The tragedy of our era may be that World War III was never fought.'"**

**—Fritz Kraemer, mentor of Henry Kissinger and Alexander Haig**

United States. At the Tufts University School of International Diplomacy, a training ground for Daniel Moynihan, James Schlesinger, and the proconfrontation Committee on the Present Danger crowd, for example, Haig threw his presidential hood in the ring, while denouncing SALT, OPEC, and the Arab nations and calling for a showdown with the Soviets over Iran.

According to informed sources, money for the Haig presidential war chest is being funneled through New York's Council on Foreign Relations figure Arthur Ross and the Lazard Freres investment bank, as well as the Heinz family of Pittsburgh, which has sponsored speaking engagements for Haig in Pittsburgh. Operational control for the Haig presidential drive is being exercised through the Order of St. John of Jerusalem and the Ditchley Foundation in the person of

oligarch Arthur Amory Houghton. Houghton has turned his Wye Plantation in Salsbury, Maryland into a base of operations to boost the conspiracy for fascism and war under Haig. Specifically, Houghton is bankrolling and organizing from there a so-called Conference on the 1980 Race to be run through the Aspen Institute and to provide a forum for the Haig plot to capture the Republican Party and the nomination.

## **A despicable career**

Alexander Haig is one of the clearest examples of British agency ever to run for the Presidency of the United States.

He received his training as a cultist at Georgetown from the Jesuits. There, the center of the Anglican Church-controlled "American Catholic Heresy," Haig imbibed the tradition of Ignatius Loyola and the Inquisition. Significantly in the modern period, both the conspiratorial British Round Table grouping, organized by Cecil Rhodes and his banker Lord Rothschild, and the Nazi SS under Heinrich Himmler (Hitler's "Black Jesus") were consciously organized according to Loyola's principle of organization and in line with the cultist and sado-masochistic practices of Loyola.

The British boosted Haig's miserable career every inch of the way. His mentor and sponsor was the displaced German oligarch Fritz Kraemer who, in the 1960's, insinuated colonel Haig into the position of official Army liaison to Allen Dulles's CIA and later secured his admission as a member of the inner circles of the New York Council on Foreign Relations. Groomed on Rand Corporation war game scenarios, the incompetent Haig was hated by fellow military professionals, which helps explain why he was denied a combat command post during his stint in Vietnam.

It was fellow Kraemer protégé Henry Kissinger who gave the real big boost to the paper clip general, bringing him onto the National Security Council as an aide in 1969.

Kissinger managed to introduce an entirely new principle into the practice of military promotion during this period. Within a couple of years, as a White House military aide working under Kissinger and the NSC, Haig leapfrogged over 50 professional military men ahead of him. He was promoted from colonel to four star general. Haig's "military" work during this period involved such notable successes as helping to prolong the disastrous Vietnam war long after military traditionalists in all three services had turned against it, helping his British confreres to plan the 1973 Arab-Israeli war, and instigating the oil hoax that followed to

try to impose a war economy on the United States, Europe, and Japan.

But, Haig's biggest operation in behalf of his British controllers during this period was the Watergate destabilization of President Richard Nixon — an inside-outside operation which Haig and Henry Kissinger coordinated with the aid of British, Kennedy, and Lazard *Washington Post* networks. "Alexander Haig is running for reelection, you know," one New York Council on Foreign Relations insider recently commented, noting that Haig had actually seized the reins of power from Richard Nixon long before Nixon was ac-

tually ousted. A coconspirator on the inside with Haig and Kissinger in this Watergate coup d'etat against Nixon was Winston Lord, now the President of the New York Council on Foreign Relations.

Rewarded for services rendered to the British monarchy, Haig was shortly thereafter made head of NATO. Haig views NATO as an occupation army in Europe which must prepare, in the immediate future, to fight (and lose) World War III at a time when the European governments and the Soviet Union are in serious economic and disarmament negotiations which could ultimately lead to the gradual dismemberment of the

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## Aspen's Cleveland: what's up for NATO

*"The Third Phase of NATO," according to a December 1978 NATO Review article under that title by Harlan Cleveland, is fascism. Of course, Mr. Cleveland, director of the International Affairs Program at the U.S.-based Aspen Institute, a branch of British intelligence, does not use exactly that word. He states simply that "runaway technologies" have rendered republican forms of government, indeed, any form of nation-state, obsolete; that a "new skepticism of science and technology" and "a new emphasis on ecological causes and effects" demand "a new willingness" on NATO's part "to think in terms of global perspectives..." Under NATO, or international bodies "cloned" from NATO for this purpose, science and technological progress must be strictly regimented, and society reorganized for "selective growth."*

*The resemblance to "His Imperial Majesty" Otto von Habsburg's "Europe of the regions," and H.G. Wells's science-for-the-oligarchy, is not coincidental.*

*The following are excerpts of the Cleveland article.*

I think it is fair to think of NATO as having three phases, of which we are at the beginning of the third. The first was getting defence and deterrence organized, and establishing an astonishing stability with essentially unusable weapons.... A second phase was the beginnings of a caucus on how to make peace with the Russians — SALT, MBFR, Helsinki and the rest.... My own favorite definition of detente (is) "the continuation of tension by other means." ... And now we come ... to a time when "security problems are more than anything else the product of how we govern ourselves."

...The central problem is clear enough; it is not 'limits to growth', it is limits to government. Let us not fudge the facts: in the industrial democracies, being developed has come to mean a chronic crisis of govern-

ance ... our governments revolving in endless and ineffective coalitions...

And yet the yeast is rising. In every industrial nation a large number of people, often beginning with the young, have started to do some rethinking of growth patterns. In the United States, for example, the size of families has declined to about the population replacement level. The historic trek from rural to urban habitats has slowed down, leveled off and then gone into reverse. The ecological ethic in its many manifestations has started to make its influence felt in the market place and in politics. A revolution has begun in the roles and status of ethnic minorities and the female half of the population. Local communities insist on gaining more control over their own growth.

...We are moving from an ethic of indiscriminate growth as the central organizing principle — growth unfairly distributed, growth wasteful of our resources and damaging to our surroundings, growth that neglects needs, growth preoccupied with the supply rather than the requirements...

...I will simply recall the paragraph in the 'Limits to Growth' study ... that started with the words, "the final, most elusive and most important information we need deals with human values."

...In sum: a tidal wave of change of values is well under way, and the main obstacle to converting these new values into policies and institutions is not the limits to physical resources or the limits to intellectual resources but the limits to government....

Political leaders keep up a brave front, but their incapacity for decision-making is becoming more and more visible to the rest of us. Central economic planning, popularized around the world partly by industrial democracies who will not touch it with a ten-foot pole

competing blocs.

Alexander Haig is a fraud. Anyone who has seen him interviewed on television sees a hollow man, a thorough dullard. Inarticulate, dumb, and carried solely by infantile, narcissistic macho impulses, Haig cuts an image of the mother-dominated fair-haired boy who is not even particularly slick. Like his close friend Schlesinger, the chain-smoking Haig reaches for his pipe whenever the interviewer demands more than his banality can handle.

—Robert Cohen

## A candidacy made in England

Who's supporting Al Haig? As this publication reported earlier this year, the NATO Supreme Commander has already garnered an outright endorsement from at least one leading London publication, the *Daily Telegraph*.

But a more revealing insight into the relationship between Haig's supporters in the United States and his supporters in London is provided by examining the relationship between a late February policy statement from the Royal Institute for International Affairs, and a closely following March 1 statement by the Republican National Committee.

The Royal Institute's statement came in the form of the *Survey* magazine article by General Hackett which predicted that Jimmy Carter's geopolitical "weakness" would make it possible to replace Carter with a "more reliable" Republican. Hackett has also outlined a policy of confrontation with the Soviets, leading, he projected, to a NATO victory over the Soviets in World War III — fought by 1985.

Using precisely the same formulation, a March 1 statement by the Republican National Committee, based on the findings of its "Strategic Alternatives Team," charged Carter with Neville "Chamberlain-like" appeasement of Soviet "dictatorship."

Republican National Committee chairman Bill Brock went further, to call for a Churchill-style "strong man" to replace Carter and square off against the Soviet Union. He said that the Administration's "vacillation" and "inadequate intelligence" in the Iran crisis will serve as a major GOP campaign issue.

The knee-jerk anticommunist profile being used by the British to manipulate the GOP into its current militarized stance is identical to that used by Sir Winston Churchill and Lord Halifax in the late 1940s to push the Republicans into "bipartisan" support for President Truman's made-in-Britain Cold War policy.

At the top of the party, however, the British Haig policy is being conducted through committed Anglophile patrician circles, notably including George Bush, as well as Pennsylvania's Heinz family and former Secretary of State Henry Kissinger (though the latter is reportedly in a "jealous rage" over the fact that, as a naturalized citizen, he himself is ineligible for the presidency.) These Republican circles interface with pro-Haig Democratic Party forces on such levels as the New York Council on Foreign Relations, the Ditchley Foundation, and the Aspen Institute.

Under the London guidance, the GOP has embarked on an unabashed campaign of confrontationism.

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themselves, is nearly everywhere in disarray. The new migratory proletariat streams across national frontiers whether national immigration laws permit it or not. Ethnic and religious rivalries and sub-national separatists threaten the integrity of long-established nations: South Africa, Nigeria, Ethiopia, Jordan, Lebanon, the United Kingdom and Canada are only the most current examples. Power is leaking out of national governments in three directions: to local communities seeking more discretion, to non-government enterprises that can do things so much faster and more flexibly than governments can, and to international agencies which must attempt somehow to manage new technologies that transcend national jurisdictions.

The institutions of government, in short, are left over from the era for which they were designed — the era of undifferentiated growth in which the many different kinds of growth did not have to relate to each other... When it comes to governance there is one thing worse than doing bad things on purpose, and that is doing good things but not relating them to each other.

In conclusion I would like to make two quick suggestions ... about the NATO Science Committee...

...Why not use our NATO fellowships to bribe more integrators and not bribe only the best of the specialists ... I mean people who are graduating from quality work in a specialty to face the ambiguities and puzzlements of bringing it all together...

My other suggestion is this: If the industrial democracies are in trouble because they are not yet wrapping humanizing institutions around runaway technologies, why do not the NATO Council and Secretary General bring the NATO Science Committee ... into the mainstream of ... research and development strategies...

I have argued that we are already in transition to a new ethic of purposeful growth ... But great ideas are never noisy on arrival. They slip into minds unannounced. Remember Albert Camus. "Great ideas ... come into the world on doves' feet. If we listen closely we will distinguish amidst the empires and nations, the gentle whisper of life and hope."

Included in the RNC "Strategic Alternatives Team" assessment is their answer to Carter's handling of SALT II negotiations. Claiming that the "most pressing matter" for U.S. security is the Soviet Union's sophisticated missile arsenal, the report argues for the MAPS plan (Multiple Aim Point System), a revamped game of Chinese checkers in which land-based missiles would be switched around between underground silos, leaving some empty to "confuse" Soviet efforts to pinpoint actual missile location.

Equally ominous was a recent *Washington Post* Op-Ed by Sen. William S. Cohen (R-Me), ranking minority member of the Senate subcommittee on arms control. Cohen dared the Administration to respond to the "harsh realities of geopolitical strategy" by linking SALT to "the current state of world events," a formulation identified with pro British geopolitician Henry Kissinger. While the U.S. is "wracked by indecision," Cohen says, "...the Soviet Union...is aggressively and arrogantly exploiting, if not inciting, turmoil throughout the world." Cohen's solution: a new arms buildup to foster "world peace through a program of strength."

## 'Front men for Haig'

*In a briefing to reporters March 19, Steve Bryen, a coordinator of Patrick Moynihan's pro-Zionist Coalition for a Democratic Majority and a former top pro-Israel aide in the Senate Foreign Relations Committee who had been under investigation for passing American state secrets to the Israelis, outlined the following perspective on the prospective presidential candidacy of General Alexander Haig on the Republican ticket:*

There's certainly a lot of talk in Washington about a Haig candidacy. He's a very bright guy, very able, but he's not yet decided to run. On foreign policy, we like his policy, but we have to find out more about his domestic policies. In any case, he could be "the dark horse General" candidate.

The problem as I see it is that he's well-known in Washington among key circles, but he's not well known out there to the public. He needs a front man. George Bush is likely to front for him, but Bush only has 1 percent support from the polls. So, what's needed is something like somebody of the stature of Gerald Ford doing the job: if somebody like Ford were to start saying "Haig is the man," then the situation would begin to develop in the appropriate direction.

# The Republican Party

Despite the flurry of backroom organizing behind Alexander Haig's presidential candidacy, those who want to put the NATO commander in the White House have so far refrained from openly publicizing their protégé.

This has little to do with the fact that Haig's resignation as NATO Commander-in-chief will not take effect until June, thus ruling out active campaigning as a matter of protocol. In fact, it reflects the realization of strategists at the Council on Foreign Relations that under normal conditions, Haig is simply not an acceptable candidate to the American people.

Haig promoters have decided instead to bide their time until the situation is ripe. As Bob Richardson, of the American Security Council, an advisor to Haig explained in a previously reported interview with the *Executive Intelligence Review*:

"If there were a series of crises...Iran goes down the tubes and there is an oil cut-off to the U.S. — then the man in the street will get scared and start saying 'We need a military man...' That's when Haig's candidacy becomes real..."

The Haig strategists also hope to corral Republican leaders and voter support for candidates who are acting, wittingly or not, as stalking horses for Haig. Their plans hinge on creating a climate where the issues and debate will be dominated by Alexander Haig's presence. The intent is to deprive the American public of a viable alternative to Haig.

## Bush and Baker

At present the most obvious front men for Haig are George Bush and Howard Baker. New York Senator Daniel Moynihan is functioning similarly, in conjunction with the more conservative Zionist lobby wing of the Democratic Party.

Both Baker and Bush are putting forward the "geopolitical" foreign policy programs that will popularize the economic austerity and military policies which will define a Haig administration.

That the two have been assigned this role should come as no surprise. Bush, who assiduously cultivates an image as a conservative Texan, is actually the scion of an old, patrician New England family. He is blueblood from Connecticut who graduated from Yale University, thoroughly indoctrinated in that institution's High Anglican traditions which include official ties with Oxford University, the alma mater of Cecil Rhodes. His impeccable Eastern Establishment credentials derive in part from his father, Connecticut Senator Prescott Bush,

# 'field': Haig's stalking horses

who sat on the board of patrician Averell Harriman's firm, Brown Brothers, Harriman.

George Bush himself is a member of the Council on Foreign Relations' board of trustees, and of the National Advisory Council of the Episcopal Church, enjoying intimate relations with cold warrior Dean Acheson's son David and the Aspen Institute's Robert Amory.

His mottled career has encompassed stints as a Texas congressman, U.S. representative to the United Nations, Republican National Committee chairman, first U.S. liaison in Peking, and CIA director. In Peking, Bush did the years-long spadework which preceded the Carter Administration's pact with Vice-Premier Teng. He has played a key role in the Henry Kissinger-Tory networks that have nearly destroyed the Republican Party and recently asserted that U.S. ties with Britain must be strengthened in an interview with this newsservice.

While some say that Senator Banker's thus far unofficial campaign collaboration with the Haig candidacy derives from opportunism more than witting agency, his position as Senate Minority leader and public spokesman for the middle-of-the-road tendency in the GOP greatly

enhances the destructive potential of his deployment. The Senator has gathered an unsavory assortment of advisors, including his campaign manager, Rhodes Scholar Senator Lugar (R-In), foreign policy advisor Edward Luttwak — a British subject and Israeli intelligence agent who works out of Georgetown University's Center for Strategic and International Studies (CSIS), and Fred Iklé, former head of the Arms Control and Disarmament Administration and currently the GOP's chief official spokesman on behalf of confrontationist policies toward the Soviet Union.

Baker's call last month for the U.S. to retaliate militarily and economically against the Afghani government for the assassination of the U.S. ambassador indicated his embrace of the Haig profile.

Most disturbing however, is the ease with which other candidates — John Connally, Ronald Reagan and Phil Crane — have been manipulated into pushing the kind of anti-Soviet and domestic austerity policies whose popularization will ironically make Haig's election more feasible. While Connally attacks Soviet aggression and the Salt II negotiations, Crane calls for a beefed up military commitment to Israel: both centerpieces of the foreign policy of the men behind Haig.

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## The Pittsburgh connection

A well-connected source in Pittsburgh political circles has informed us of the key role played by John Heinz II, the chairman of the Heinz Corporation and father of Sen. John Heinz III (R-Pa.), in the test tube creation of the Haig candidacy.

According to our source, the elder Heinz, a member of the American Advisory Committee of the Ditchley Foundation, first started talking about a Haig presidential candidacy among the Pittsburgh corporate and banking elite in mid-summer 1978. Heinz then proceeded to bring Haig to an August 1978 meeting of the Allegheny Conference on Community Development. Heinz discovered that his man on the White Horse could be sold quite easily to the Mellon, Morgan and other interests who populate the ACCD.

With the top leaders of the ACCD "sold," Jack Heinz began to build up something of a behind-the-

scenes campaign infrastructure for his boy Haig. According to our latest reports this includes working on a corporate war chest. This is being handled through a Mr. Shortbridge, a top level contact man in the U.S. Steel Corporation whose chairman Edgar Speer is a leading proponent of fascist war-economy measures and a bitter enemy of the European Monetary System.

Heinz is the key man, our source states. "He really wants to put Haig into the White House and he will put all the muscle he has behind it."

Heinz is currently on an extended trip in the Caribbean for unannounced purposes and could not be reached for comment.

His son the senator recently captured the chairmanship of the key GOP Senate policy committee in a bitter fight.

## 'Close to Vance, Califano, Kraemer'

*Recent interviews with close associates of Alexander Haig, who are members of the strategic policy community in Washington, distinctly profile the U.S. NATO Commander as an opportunist of limited abilities. Like Henry Kissinger, Alexander Haig was the protégé of Fritz Kraemer, a Defense Department strategist. Haig, one official said, peddles his nostalgia for World War II to credulous patriotic Americans, but finds his closest friends among the Anglo-American Episcopalian and Jesuit elite for whom the prefix 'Anglo-' is what really counts.*

*The following excerpts of a conversation with John Lehman, former deputy director of the Arms Control and Disarmament Agency and now a Republican Party foreign policy advisor, were made available to the Executive Intelligence Review.*

I worked under Haig on Kissinger's staff from 1969 to 1974. I worked very closely with him. I don't know that he has decided what he will do on June 30 when he leaves NATO, but he will certainly be heard from. He has very great problems with current U.S. policy, but he would never speak disparagingly of the President while in uniform. I cannot imagine that he is not deeply upset by the defense and foreign policy of this Administration. I am convinced that that is why he quit.

Energy Secretary Schlesinger and Haig support each other and are very good friends. So are Haig and Health, Education and Welfare Secretary Joseph Califano. Haig is personally very, very close to Cy Vance. Al thinks very highly of Vance. In fact, the main influences on Haig have been Fritz Kraemer, Vance, and Kissinger. Of course, he was trained at a Jesuit prep school which gave him a logical turn of mind.

He was very highly regarded by Nelson Rockefeller. I think Rockefeller wanted him to run for President this time. John Connally would also praise Haig, same with George Bush, (Sen. Bob) Dole, (Sen. John) Tower, and John Kendall of Pepsico — he is a Haig fan.

Haig saw Nixon in Paris, but they are not close. Haig does have a close relationship with Kissinger. They talk several times a week. But Haig always talks with Vance and Califano, and of course he is close to (columnist) Rowly Evans. He knows Vance and Califano from Pentagon days under Lyndon B. Johnson, and he sees them, Vance especially, whenever he's in town and keeps in touch with them both all the time anyway. I don't see that that should surprise you, the differences are not so great.

Within NATO, Haig, is very close to NATO Secretary General Joseph Luns.

## 'Henry is Jealous'

*A retired United States general now prominent in policy-making circles of the Republican Party had this to say about Haig.*

I have known Al Haig for a long time. He has a good Jesuit background and is close to Schlesinger — they have the same attitude on U.S. and Soviet relations. ... I have no doubt Haig will speak up. His views will be widely sought and will have tremendous impact. I am not so sure Henry Kissinger is happy about that. I don't think Henry is happy about Haig at all — jealousy. Partly because of place of birth — that is, Al can run for President, but Henry can not. Henry does not like it that Al is getting all that attention.

I don't think Haig is going to run for President, but I would tell the candidate I am advising to put him in his cabinet.

The NATO situation is bad. West Germany is coming unglued. (Social Democratic Party parliamentary leader Herbert) Wehner and (SPD leader Egon) Bahr are pressuring Schmidt. What they are doing is shattering. The Soviets are moving to create the conditions of Rapallo (the trade and military pact between the USSR and Germany finalized in 1923 —ed.). They do not have any handbook as to how to create these conditions, but they are poised and ready to go. Schmidt is too smart to be sucked in, except for pressures from the left wing. He has got a genuine problem. Schmidt is popular, but his party is not. I was recently in West Germany. I was astonished by the material well-being. I met with (Christian Social Union Chairman) Strauss, (CDU security spokesman Manfred) Woerner, and Schmidt. Schmidt talked at great length to us about his European Monetary System, but I could not understand it.

Yes, I know Haig is very close to Cy Vance and Califano.

## 'Haig thinks like Schlesinger'

*A third opinion on Haig was offered by another Republican Party advisor.*

In NATO, we always accepted that the Soviet Union had conventional, on-the-ground superiority. To me, the only chance we had of balancing them off was air power and a range of nuclear weapons, but the decision was made a few years ago to go a different route. Schlesinger agrees with me. I am not sure of Al Haig's views on this, but he is very close to Schlesinger, as he is to Cy Vance and Joe Califano, with whom he used to work so closely at the Pentagon.

# The General's domestic program

At the center of the Haig economic program for the United States, is the energy austerity drive currently being mounted through the actions of James Schlesinger and U.S. oil companies to manipulate an oil shortage. This fact was as much as admitted by the Continental Oil Company executive who told a caller March 19: "We have made our choice: Alexander Haig."

The Haig energy policy is the result of a three-way deal involving the U.S. majors, led by Exxon, British Petroleum and Royal Dutch Shell, and Energy Secretary James Schlesinger, a candidate of the NATO chief.

## Schlesinger and the oil sisters agree to have a shortage

The heart of the oil companies' deal with Schlesinger is their agreement to back reduction in domestic oil supplies in return for a Schlesinger guarantee of oil price decontrol and, thus, skyrocketing energy prices. News leaked out three days ago that Exxon, the world's largest private oil company, is now leading the others on behalf of Schlesinger's "oil shortage" plan.

## What did Exxon announce?

It is cutting allocation of oil to U.S. refineries by an amount double that of U.S. imports from Iran. Why? The London-based Seven Sisters cartel made an "agreement to share" the impact of Iranian cutbacks with the two companies with the largest stake in Iran: British Petroleum and Royal Dutch Shell — the architects of the Iranian revolution and subsequent oil price war. This despite the fact that Iranian oil production is climbing back towards 3 million barrels per day.

## Depression economics

What Schlesinger and the Carter administration are doing — the Haig policy — is simultaneously pushing an "anti-inflation program" and a wildly inflationary decontrol of oil prices. Unless one recognizes their objective to be a depression, this policy makes no sense. Oil decontrol means raising the price level from the current \$5.50 a barrel up to world market prices. The bill to consumers is conservatively projected at \$15 billion — not just at the gas station, but in soaring food prices, as

## Rostow: 'progressively tighter energy rationing'

*Portions of an interview with Walt W. Rostow, a professor at the University of Texas and former Deputy Secretary of Defense official with the Johnson Administration, were made available to this news service. Rostow is a leading spokesman for the proposed Energy Corporation of the Northeast (ENCONO), a project originated by Lazard bank's Felix Rohatyn, which envisages tight control of all energy allocation on a regional basis. Rostow was first asked about the severity of the energy crisis. He replied:*

The situation is critical. We need energy rationing and then it has to be progressively tightened. The President must lay out an all-out energy program. People are scared. The country is falling apart. Water is running out. Resource problems must be at the center of attention. Read my 900-page *Getting from Here to There*. Hear me speak this Monday to the Senate Energy and Regulations Committee.

We're heading into a very dark period. On April 2, I will speak to the nation's geologists in Houston. In my speech I will summon up Churchill's image at the beginning of his history: *The Year of the Locust*. That's where he says we should have rearmed but didn't.

The energy question must be treated like war.

There are two operations going: the Midwest Governors and New York's ENCONO. ENCONO's going great! You know Felix Rohatyn? The congressional legislation is all prepared. Felix is working closely on it. It's amazing what you can get done in New York, Cleveland, Denver, and New Orleans, as opposed to Washington. Felix stresses he never could have done in Washington what he did with the unions and banks in New York. ENCONO is almost ready.

petroleum-based fertilizer costs rise, etc. It makes perfect sense to Schlesinger. His objective is to put the U.S. economy through a depression-wringer.

That is only emphasized by the way the Energy Secretary "manages" other energy supplies. This week the Nuclear Regulatory Commission NRC, as it is termed, ordered the immediate shutdown of five nuclear power stations in the industrial Northeast for what may be months. Schlesinger's office quickly announced that the loss of the nuclear power will require consumption of an additional 100-200,000 barrels of oil per day to achieve the equivalent electricity generation for the 13 million people served by the five stations.

The NRC retroactively applied new "safety regulations" to the plants, saying there may have been an "arithmetic error" in the design of the plants' pipe-cooling system. The significance of the error? The sta-

tions, all located in the Northeast, might not withstand a major earthquake very well!

One of the plants was examined before the shutdown, and found to have no violations of standards. It was shut down anyway.

Unlike Japanese and European policy-approaches, Mr. Schlesinger denies that nuclear power could offset the "oil shortage." He's seeing to that.

One leading utility head recently noted that the nuclear capacity already under construction would offset the loss of Iranian oil within two years. Contradictory rulings from Mr. Schlesinger's office on behalf of "environmentalists" have brought most of the construction to a screeching halt.

Schlesinger's policies are preparing the way for fascist regimentation of the United States economy centered around labor-intensive "energy development"

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## Aspen: nuclear industry is being dumped

*The following interview with a ranking energy specialist at the Aspen Institute, which is heavily involved in the Haig candidacy, was made available to this news service. In addition to his discussion of the nuclear industry, the expert also touched on international aspects of the Haig program.*

*Q: What are the Aspen Institute's views on the prospects for nuclear power? Frank Zarb of Lazard Freres, who is on Aspen's energy committee, has been making a pitch about the favorable prospects for coal and nuclear power, and has been saying that the Administration will go pronuclear soon. Yet the recent Nuclear Regulatory Commission (NRC) shutdown of five reactors seems to belie this. What do you think?*

*A:* The U.S. nuclear industry is dying. There isn't even an inventory of spare parts. Besides, who needs Westinghouse and G.E.? If the U.S. needs a few reactors in the coming years, they can always get them from France or Germany at a slight premium. It's true, safety isn't really a problem, although there is the problem of disposal. When you get right down to it, the whole nuclear question is political.

The reason you had a renewed interest in nuclear power recently was because of second thoughts about coal. Coal infrastructure just costs too much. There's the railroad expenses, the slurry pipelines. Coal gasification isn't entirely out of the question, but coal liquefaction just isn't feasible, given its huge requirements of water.

What's needed is something without such costs,

something already in place. After all, we're sliding into a real economic slowdown.

In this respect, natural gas has real advantages. It's relatively environmentally clean. It's a good transition fuel to the soft energy regimes of the future.

What we really need is cogeneration! Each plant has its own, individual energy-generating facilities. Various people are working on this. The problem is with the utilities. The present rate structure has got to go. As things stand now, the utilities are allowed to pass through to the consumer their expenses for investment in new generating capacity. This is blocking cogeneration. The utilities are also fighting it in the courts.

*Q: Is the Aspen Institute leading the effort for a North American Common Market?*

*A:* I wouldn't say we're the leader. But — this is very off the record — an office of the Department of Energy has just asked us to pull together a four or five day meeting that will consist of ten Mexicans — mostly academics, but they're close to the Revolution — and ten Americans. Then, when the Mexico-U.S. side is taken care of, we'll bring in Canada and Japan.

*Q: Won't Mexican President Lopez Portillo oppose this?*

*A:* I think he'll be more cooperative than people realize.

*Q: What kind of energy program do you see for the underdeveloped sector?*

*A:* The LDC (Less Developed Countries — ed.) side is the following. The Saudis have a lot of money tied up in the

projects, typified by the Energy Corporation of the Northeast (ENCONO) plan drafted by Lazard Freres' Felix Rohatyn and now back on the front burner as a national policy issue.

Under these plans, the U.S. unemployed would be recruited into construction and employment at such projects as backyard hydroelectric dams, solar energy projects, and similar inefficient programs modeled on Nazi Finance Minister Hjalmar Schacht's reorganization of the German economy.

In addition to the revival of ENCONO, a foretaste of what is to come was provided by the fact that Vice-President Walter Mondale, whose support of a forced labor relocation program helped shoot down his 1975 presidential trial balloon, is now reviving dormant plans for mass public works programs to deal with "youth unemployment."

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LDCs. They're worried about losing it. They'll invest in energy projects there if government guarantees are provided.

*Q: What if the LDCs want nuclear reactors?*

*A: The best way to deal with that is to have specially-tailored energy studies for each country. A hydroelectric project for this country, something else for that country.*

*Q: You mean, something with a private investment component that would be complementary to the World Bank's new program for funding LDC self-sufficiency energy projects?*

*A: Exactly.*

*Q: Do you think the Saudis will buy this?*

*A: Yes. Two of our people — including John Sawhill — just got back from staying with Yamani at his small house in London's suburbs. The word is that the Saudis want to increase prices — but not too fast to shatter the world economy. And they want to limit production. The Saudis were very sobered by what happened to Iran. They're worried about the civil liberties and corruption issue. They're especially vulnerable on the corruption issue. And the kids aren't religious anymore. The Saudi royal family is really torn apart. Yamani's trip to London was delayed four hours because of this.*

*Q: Is Yamani's position secure?*

*A: I'm not sure. The long-range planning council is his baby. It's got academics from various countries — Venezuela, etc., on it. He's using the council to fortify his position.*

## Haig foreign policy in the Middle East

The world got a clear look at Haig's foreign policy in action during the recently concluded mission to the Middle East headed by U.S. National Security Advisor Zbigniew Brzezinski. Notwithstanding all the publicity about "convincing Saudi Arabia and Jordan to support the Camp David peace," the delegation's stated mission was to push the Egypt-Israel separate peace into the next phase of Britain's planned U.S.-USSR showdown, namely the militarization of the pact under the very anti-Soviet NATO doctrine Haig embodies.

In fact, the new Israel-Egypt military alliance emerging from the Camp David separate peace treaty has cleared the way for the militarization of the entire Middle East. The Israel-Egypt axis is now slated to serve as the core of a new NATO-style Middle East Treaty Organization (METO) committed to "having it out" with the Soviets in the Middle East. Worried Arab officials, along with well-briefed Middle East analysts, are stating point blank that the treaty between the two countries sets the stage for war.

### Payment plan for war

According to reliable estimates, the Carter Administration is committed to funnel \$25 billion in weaponry and related aid to Israel and Egypt over the next three years. This amount includes \$3 billion to Israel to cover the costs of evacuating the Sinai Peninsula and building two new airfields in the Negev Desert. In addition, the U.S. will speed up the sale of \$3 billion in arms for Israel, including 75 F-16 jet fighters. The U.S. has also agreed to supply Egypt with approximately \$3 billion in military aid, including destroyers, tanks, submarines, and advanced aircraft. Egyptian Defense Minister Ali has requested 300 F-16s, 2000 armored personnel carriers, and anti-aircraft missiles, among other things. Following his meetings with Ali, Defense Secretary Brown spoke about a "new defense relationship" with Egypt and the "new dimensions" of U.S.-Egypt military supply relations.

Added to this amount is approximately \$8 billion in aid to both countries, including economic aid increases to Egypt if the Saudis should cut Egypt off.

To work out the precise shape of the METO militarization push, Israel Defense Minister Moshe Dayan arrived in Washington last week for talks on a "memorandum of understanding on U.S. security assurances" to Israel, akin to the secret Kissinger clauses of the 1975 Sinai pact. This memo, sources say, will include a de facto U.S. nuclear umbrella for the Israelis.

## Arabs respond

The pressure on Egypt's President Sadat from the rest of the Arab world not to accommodate this scheme is intense. Saudi Arabia, putting a definitive end to Zbigniew Brzezinski's lying claims of Saudi "neutrality," held a special meeting of its royal ministerial council last week and unequivocally attacked the Egypt-Israel alliance, calling for a Palestinian state, and stated that Saudi Arabia would work to implement the resolutions of the 1978 Baghdad summit — namely, the Saudis will cut off aid to Egypt.

The Saudi press has also taken a tough stance. *Al-Jazira* and *Al-Bilad* report that the Arabs should prepare for a "long, continuous war." *Al-Riyadh* stated editorially that signing the peace treaty cannot be tolerated given Israeli Prime Minister Begin's categorical refusal to ever accept the creation of a Palestinian state.

Jordan's King Hussein has also been outspoken. In a startlingly undiplomatic statement to the press, King Hussein accused the U.S. and, in particular, Administration emissary Zbigniew Brzezinski, of "arm-twisting" the Arabs into acceptance of the Egypt-Israel pact. He also ridiculed Brzezinski's hysteria over the threat of communism in the Middle East and noted that the threat facing the Arab world is not communism but Zionism. Revealing that Washington had tried to prevent him from holding the press conference, Hussein said: "for the first time, the Americans asked us to keep quiet, please. They said, 'Don't make any statements or noise that could affect the peace process.'" The King later raised the possibility of a break in U.S.-Arab ties.

Taking the diplomatic lead, Iraq has officially issued a call for the convening of a special meeting of all 20 Arab foreign and finance ministers to prepare for imposing sanctions against the Sadat regime. In a tough warning to Israel, the Iraqi daily *Al-Thawra* stated: "The Arab masses must change any war Israel launches from a limited war, as Israel would like, to a liberation war, whose duration and severity will be determined by the Arabs. No limited wars!"

Iraqi leader Saddam Hussein warned that Sadat will face "the same destiny faced by the Shah." In the same vein, Libyan leader Muammar Qaddafi called Sadat "a black traitor, a high priest, a senior Freemason."

## Will Egyptian army become a mercenary police force?

Even if Sadat does not survive politically following the signing of the treaty, the militarization of the region combined with the planned transformation of the Egyptian armed forces into gendarme-style strike force, is all but ensured. For, if Mossad (Israeli Intelligence) and its co-thinkers in Washington and London have their way, the republican-style Egyptian military, once the showcase of the Arab world, will rapidly disintegrate into a loose amalgam of mercenary, shock-troop units.

If U.S. Senator Henry Jackson (D-Wash) and Israeli Foreign Minister Moshe Dayan prevail, the Egyptian military will become a mere adjunct of the Israeli defense apparatus and a deployable force within the confines of the anti-Soviet Middle East Treaty Organization. As part of NSC head Zbigniew Brzezinski's METO strategy, an Israeli-directed Egyptian military will carry out a gendarme role throughout the African continent to "stem the tide of Soviet incursions." In addition to wiping out the Libyan military, Brzezinski, Dayan and Israeli Defense Minister Ezer Weizman intend to send Egyptian shocktroops to Chad and Zaire in the upcoming months. This new perspective was laid out in an interview with a top U.S. Zionist lobbyist:

"The Egyptian army is a big army, fairly well-run by Middle East standards. It has some political problems, with officers and others demanding more compensation and fulfillment of economic concerns. They're in deep trouble in respect to materiel and equipment, with no spare parts. So, what the army will do after Camp David is signed, is first defend itself against Libya — but that is small potatoes. They don't need a huge army. They need one or two *good divisions* which would be affordable and manageable. As it is now, 50 percent of any money they would get for the army would have to go into maintenance, and Egypt is not eager to over-obligate itself. So keeping the army in good shape is not a good possibility. Each division, under the idea I am stating, would be 5,000, so you need to think of no more than 10,000 men having to work effectively. This would be just right for dealing with something like Libya. And it fits into the recent pattern of Egyptian acquisitions: Why do they need helicopters? For Chad. One needs them less in Ethiopia but more so in Arabia."

Although it is a well-known fact that the Egyptian military suffers from lack of adequate equipment and spare parts for its Soviet-built tanks and fighter planes, the legacy of Gamel Abdel Nasser, the Egyptian leader who developed the notion of a republican nationalist force, and who built the industrial base with which to serve it, cannot be so readily erased. The decision to scuttle the last bastion of Nasserism will most certainly engender a backlash within the Egyptian military which may reduce Brzezinski's plans for geopolitical containment of the Soviet Union throughout the African continent to idiotic pipe dreams. Already, Egyptian military circles in Europe have expressed serious reservations about Egypt's future military role in the Arab and African world.

# Kissinger-Haig policy on Mexico fed to conservatives

Mexico's stated commitment to use its vast oil reserves, probably surpassing those of Saudi Arabia, to finance rapid industrialization, has prompted tremendous interest in U.S.-Mexico relations. The policy proposals which have appeared from U.S. sources in recent months, whether "liberal" or "conservative," pro- or anti-Administration, have shared the same basic concerns: how to assure U.S. control over Mexican oil, and prevent Mexico from developing as an advanced industrial "Japan south of the border," in the words of National Security Council chief Zbigniew Brzezinski.

The "conservative Republican" version of this U.S. policy toward Mexico was formulated with great fanfare last week, in two days of briefings to some 55 to 60 congressmen and top military officers provided by the Council for Interamerican Security. The council is a Washington, D.C.-based think-tank and lobby closely tied to Henry Kissinger and his protégé General Alexander Haig and spawned out of Kissinger's current base, the Georgetown University Center for Strategic and International Studies (CSIS). The conservatives attending the CIS festivity were treated to a heavy dose of British geopolitics: Mexico may become a "new Vietnam" threatening the U.S.'s southern border.

According to the Council's prospectus for its "Mexico 2000" project, a "new Mexican Revolution would spill over into the U.S. There have been repeated allegations of Soviet-Cuban plans to move terrorists across the porous U.S.-Mexican border, secreting them into the Southwest's ever-growing pool of U.S. 'Chicano' population."

"Mexico 2000" project director Lt. Gen. (ret.) Gordon Sumner—who resigned his post as head of the Interamerican Defense Board last year to run the CIS campaign against the Administration's Panama Canal Treaty—declared that "the Soviets want nothing better than to create a hostile border," and proposed that Mexico and the U.S. seek "joint formulas to facilitate the increase of security along the border," according to the Mexico City daily *Excelsior* March 14. Sumner backed up his allegations of the "weak southern flank" with the revelation that the "threat of revolution" in Mexico in 1976 was a focus of great concern by the U.S. Joint Chiefs of Staff.

The Mexican press has already reacted with vehemence to the Sumner "red scare." Both the dailies *Excelsior* and *Uno Mas Uno* ran major exposés of the Council's policy push in the form of interviews with Gen. Sumner.

Although the Council's policy prospectus gives lip service to Mexico's need to develop, the substance of its economic policy proposals is no different from the World Bank, an anti-industry policy espoused by the Carter Administration itself.

Mexico, maintains the Council, needs to focus on agriculture to provide food and jobs for its population or face an explosion of the "population time bomb." Never mentioning development of the capital goods sector or industry generally, the "Mexico 2000" policy urges exploitation of mineral resources, fishing industry, and tourism.

Its treatment of the flow of undocumented workers to the U.S. is double-edged: clear is the threat to "seal off the border," setting off internal chaos and destabilizing "revolution" in Mexico, while the CIS attack on U.S. union (job) "protectionism" suggests an intent to use Mexican migrants as cheap labor to bust U.S. unions.

The "Mexico 2000" document is little different from the "liberal" policy line advocated by Edward Kennedy and Gov. Jerry Brown for a "North American Energy Common Market." The common market proposal, drafted by the investment research firm Blyth, Eastman Dillon and widely distributed to government and other officials, makes the same scarcely veiled threat of invasion of Mexico if that country fails to accede to U.S. policy dictates.

## Haig Campaign Committee

In effect, the policy orientation toward Mexico—and by extension toward the Third World in general—pushed by the Council for Interamerican Security is a preview of the policy of an Alexander Haig presidency in the U.S.; the Council itself is functioning as a de facto campaign committee for Haig, organizing basically pro-technology but gullible conservatives and Republican Party hopefuls around the need to protect U.S. national security. The Council's working basis is an undiluted

Kissinger-Haig geopolitical view of the world revolving around "Western irresolution" in meeting the "Soviet-Cuban" menace to the strategically vital Southern Hemisphere. Without naming it, the Council, citing Alexander Haig, poses the need for a South Atlantic Treaty Organization to guard "the exposed flank of the NATO Alliance ... Africa and South America, the allies' Southern Flank." Haig's name, in fact, was mentioned favorably throughout the two day briefing session, according to insiders' reports. Mexico 2000 project director Sumner is reliably reported to have admiringly dubbed Haig the "South African candidate."

The Council's directors and advisors include well-known Kissinger collaborators such as Georgetown CSIS Latin American Director Roger Fontaine, author of the 1977 Rockefeller Commission on Critical Choices report on Latin America; Lt. Gen. Daniel Graham, formerly of the Defense Intelligence Agency and best-known for his role in Brzezinski-Kissinger Mideast war games; and Georgetown-linked Rep. Robert Bauman, who took over presidency of the American Conservative Union in February.

—Mary Goldstein

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## The council talks about itself

*Following are excerpts from a brochure distributed by the Council for Interamerican Security.*

### **"Danger on our southern flank"**

"... Organized in 1976, the Council grew out of the recognition that the global character of political and military competition between the Communist bloc and the Free World has entered a new phase ... perhaps a turning point.

"Strategic, political geography is rapidly changing. The growing Soviet military advantage is increasingly in evidence in parts of the world which were until recently beyond the reach of the USSR. This Soviet advantage is a prelude to Communist political gains in many parts of our globe. In the Southern Hemisphere, NATO's unprotected flank, a new and protracted conflict is being fought for ultimate world hegemony.

"General Alexander Haig, U.S. Commander of NATO, warned in early 1978 that the Soviets are not likely to militarily challenge NATO in Europe any time soon. Instead, their challenge is visible 'on the periphery as the Soviet Union exploits targets of opportunity'.

"A close look at Africa and our South Atlantic basin reveals three important geo-political objectives for the Cuban-Soviet Axis: 1) control of oil routes, 2) domination of the mineral wealth of the African subcontinent, 3) military and political penetration of South America. These are the objectives of Communist hegemony in the Southern Hemisphere. This is what CIS seeks to thwart.

"If successful, this Soviet-Cuban initiative will

change the face of international politics for the rest of the century. The Soviet Union realizes that the greatest potential weakness of the industrial West is our near insatiable demand for raw materials, particularly oil and rare metals not found in the Northern Hemisphere.

### **Lifelines of the West**

The very lifelines of the Western economy are the sea lanes connecting Africa and the South Atlantic trade routes ...

"By controlling the Horn of Africa or the port and fueling facilities along the African coast, in Mozambique, Angola and Southwest Africa, the Soviet-Cuban alliance could pressure Western oil supply routes. The axis would seek to control the course of sea traffic from the Caribbean to the South Atlantic. Meanwhile, Soviet strategic power in the Caribbean, in the form of a submarine or missile force, could effectively neutralize the United States to the north; thereby creating a protective nuclear shield or buffer for Cuban guerrilla and terrorist activities to the south, along the West African and South American coasts, and in central America.

"And what of Mexico's oil? Vast Mexican petroleum reserves could be the Free World's energy 'ace'. Unstable Iran and feudal Saudi Arabia are already prime strategic targets for the USSR. The problematic future of Mexico is the concern of a CIS Task Force headed by Gen. Gordon Sumner ...

"CIS has two objectives:

\* Halt the unilateral disarmament of the United States.

\* Forge a new cooperative alliance between responsible anti-Communist people and governments from Canada to Argentina that will protect the U.S. Southern Flank.

"CIS activities throughout the United States and the Americas defend our vital security and counteract the anti-defense and pro-Marxist lobby in Washington.

# 'Mexico: a new Vietnam'

*The Center for Inter-American Security issued a prospectus for the "Mexico 2000" project, with plans to publish a 200-page policy document by June, 1979. The following excerpts indicate the orientation of the Kissinger group.*

## **Threat and Promise**

Oil, population, poverty and politics are combining in Mexico in an explosive way that, paradoxically, both threatens and holds promise for the United States. For the first time in history Mexico is coming into position to be a decisive factor in world affairs....

Oil reserves equal, many believe now, to Saudi Arabia's could make Mexico boom, giving it revenue to build for an advanced economy. Oil will also vastly increase that country's importance to the United States. Mexican oil would be critical for the survival of the United States, Western Europe and Japan if the Soviet Union secures control of Persian Gulf petroleum....

But the pressures of poverty, political violence and unrest (little reported in the U.S.) could explode before the effects of new oil wealth are felt. Then, of course, there is the crucial question of how Mexico will use its new oil wealth. Will it be invested soundly or will it be fretted away on populist redistributionist schemes?...

## **Economic vs. Population Growth**

Today Mexico has too many people, not enough jobs and an uncertain, if not perilous, future.... To some authorities on both sides of the border, Mexico is a population time bomb... To feed themselves, more and more of them will have only one place to turn—the United States—unless there are changes soon....

In the past 25 years, job creation never has kept pace with population growth, and there is little reason to believe that will improve unless policy changes are made soon....

For 30 years, Mexico, which has the resources to feed itself and export food, ignored investments in its agricultural sector precipitating a flight from the countryside and the search for work in the cities.

## **A New Vietnam?**

Policy decisions effected between now and the end of

President Lopez Portillo's six year term in 1982 will likely determine whether our southern neighbor breaks out of its economic and political constraints or plunges into a downward spiral possibly leading to revolution.

As *U.S. News and World Report* (7/4/78) puts it, "Americans could face a potential Vietnam right on their doorstep."

A new Mexican Revolution would spill over into the United States. There have been repeated allegations of Soviet-Cuban plans to move terrorists across the porous U.S./Mexican border, secreting them into the Southwest's ever-growing pool of U.S. "Chicano" population. The governor of New Mexico has privately wondered how he might handle 1000 or more hungry Mexicans rampaging across the border if the U.S. tries to close that escape route....

Taken as a whole, the Mexican economy has numerous possibilities for growth.... Tourism has grown substantially in recent years but the country's potential is far from being realized. Most important, investment in this industry could produce a short-term return for investors and a sizeable number of new jobs. Similarly, development of the country's mineral resources, the fishing industry and agriculture are but some of the other areas which offer great promise for Mexican—and foreign entrepreneurs.

## **Prospect for Change**

Today Mexico is run by a closed, tightly knit and self-perpetuating political bureaucracy—the Partido Revolucionario Institucional or PRI.... Observers on both sides of the border wonder whether the closed system, resembling in many ways Mussolini's Italian fascism, will change its economic and political direction in time.

The adoption and implementation of realistic policies to lift Mexico from its morass will not be easy. Lopez Portillo faces vigorous opposition from leftist elements; in the United States unenlightened protectionist elements—particularly labor—must be countered.

# Fed okays British bank buys

*A coverup for HongShang — but the fight is not over yet*

In a surprise 5 to 0 vote March 16, the Federal Reserve's Board of Governors approved three controversial British banking takeovers of American institutions — exacerbating rather than quieting the storm of controversy that erupted around the proposed acquisitions last fall. The success of The Hongkong and Shanghai Banking Corporation's proposal to acquire Marine Midland Bank, Standard Chartered Bank's proposal to acquire Union Bank of California, and National Westminster's proposal to acquire the Union Bank of California, is by no means assured, despite the Fed's stamp of approval.

Four obstacles still stand in the way of the biggest British banking move into the U.S. markets since the pound sterling went off gold in 1914:

1) New York State Banking Superintendent Muriel Siebert will under no circumstances rubber-stamp the Fed's decision, after her strong stance against unbounded foreign acquisitions of American banks in a letter to House Banking and Currency Committee Chairman Henry Reuss. In press statements this week, Siebert insisted that the New York State authorities — who can prevent the HongShang from voting its shares in Marine Midland and effectively block the takeover — will take their time in considering the acquisitions. Last month, the *Wall Street Journal* quoted Siebert as projecting a decision well into the summer — a statement which a top Siebert aide says was cited by the *Journal* out of context.

2) The U.S. Labor Party, which filed a complaint against the HongShang acquisition bid with both the Fed and the New York State authority in October 1978, will file suit against the Board of Governors in the United States Court of Appeals, in a procedure which might mean an extended stay of the Fed's decision.

3) Many regional bankers, upset and angry over the prospect of an aggregate \$30 billion bank acquisition by British predators, intend to take action through their own channels. One large New York State regional bank with over \$1 billion in deposits has already alerted its general counsel to prepare possible action, and other banks are alerting their Washington lobbyists.

4) For a variety of reasons, Congress will reportedly hold hearings on the acquisitions. According to senior

House Banking and Currency Committee aides, Rep. Fernand St. Germain (D.-R.I.) will hold hearings on the three British acquisitions. One aide says that the Fed approval itself has given the St. Germain Subcommittee on Financial Institutions the context in which to question the mergers.

## Regulators split

New York's Miss Siebert and Fed Chairman Miller are bitterly divided on the central issues. In a March 6 response to Miss Siebert's earlier letter to Rep. Henry Reuss, Fed Chairman Miller insisted that the issues Siebert raised were old hat, dating back to detailed Congressional debate during the hearings on 1978's International Banking Act. Siebert insisted that Congress had left major problems unsolved; among these, she had written, was the possibility that the close relationship between acquiring foreign banks and foreign governments might lead to unwanted foreign official influence on American monetary policies in the event that the foreign banks absorbed a large share of American banking markets. The last point is a reference to the HongShang and Standard Chartered Bank, whose governing boards read like a Who's Who of the British Foreign Office and British Intelligence.

Siebert maintains that the International Banking Act passed last year deals with opening new outlets for foreign institutions but did not discuss acquisitions — a point which congressional sources affirm.

What makes Miller's assertion to the contrary so embarrassing for the Fed is that the Marine Midland Bank — under advice of HongShang lawyer Stuart L. Pittman — took the same position in a press release dated two days earlier. Granting that there is no evidence of collusion of lawyer Pittman, of the big Washington firm Shaw, Pittman, Trowbridge, and Potts, and Fed Chairman Miller, the coincidence raises eyebrows, particularly because both Pittman's and Miller's arguments against Siebert rest on the same factual error.

The British financial press has already opened a broadside against the feisty New York State Banking Supervisor, typified by the London *Economist's* reference to her "heavy breathing" over foreign bank acquisitions. Sources close to Miss Siebert say that this

type of press treatment is more likely to make the regulator stick to her guns than to dissuade her.

### **British blackmail**

The explosive potential of the regulatory fight is evident from material the *Executive Intelligence Review* has obtained from undercover investigators. The accompanying interview with a Citibank official in London reveals that British banks in London twisted the arms of American bankers to support the takeovers, by threatening to deny them clearing facilities in London financial markets in the event that the British bank takeovers were not approved. The interview also documents that such pressure was applied directly to Board of Governor's senior staff members John Ryan and Fred Dahl during a recent trip to London. Ryan and Dahl, the number one and number two men respectively in the Fed's Banking Supervisory and Regulation Division, were also told that harm would come to American banks in retaliation against Federal opposition to the proposed takeovers.

In its forthcoming suit against the Board of Governors, which must be filed within 30 days of the March 16 ruling, the U.S. Labor Party is expected to allege gross malfeasance of the regulatory body in handling the Standard Chartered and HongShang cases.

Apart from documentary evidence of illicit British blackmail tactics, there is a "Watergate-style" coverup of the issue involved.

The March 16 ruling dismisses the Labor Party's widely-publicized charge, that the two Hong Kong banks are central to the financing of international narcotics traffic, as undeserving of the "weight and dignity" of a Federal Reserve investigation. The ruling complains of "dubious deductions" and "unverified accusations" in a passage written in exceptionally strong language. The implication is that no investigation was ever necessary, or was ever conducted.

In fact, a staff investigation was in full swing during the five months between the Labor Party's presentation of the charges and the Fed's ruling. According to authoritative sources, the late Federal Reserve General Counsel and Assistant to the Chairman, Thomas O'Connell, had directed the Fed staff to conduct a thorough investigation, after a meeting with Labor

Party representatives in late September 1978. But the ruling makes no reference to such an investigation. O'Connell died, allegedly of complications arising from a longstanding diabetes condition, in February 1979.

A number of conservative Congressmen reportedly will begin to raise questions about the Board of Governors' possible coverup of Fed Staff findings.

—David Goldman  
Economics Editor

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## **EXCLUSIVE INTERVIEW**

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### **Blackmail used to push through takeovers**

*The following portions of an interview with a top Citibank official in London demonstrates that British banks employed blackmail tactics in an effort to force American banks to knuckle under to the takeovers, and that such tactics were similarly employed against Federal regulators. The interviewed banker, reluctant at the outset to discuss the subject, ends with an indictment of the British side that could have profound effects on bank regulations.*

**Q:** . . . Ms. Siebert, the New York State Banking Department head, has already said that because there is no reciprocity these things, (takeovers) must be denied. And the British were quite upset about that, in fact the Bank of England asked her to come and see them when she's in town in two weeks . . . They were upset precisely because they said reciprocity ought not to hold because our two banking systems are so different. And what we heard was

*that a large number of banks in New York in particular would actually like to see the possibility of a wave of take-overs... forestalled. Irving Trust has reportedly requested the White House... But we were told by a number of banks that... "we're afraid if we back up Siebert the British authorities will take some kind of retaliatory measures against us ... What levers do the Bank of England, or the Exchequer... or even the British private clearing banks ... what kind of things could they conceivably do to make life difficult for American banks in London?..."*

**A:** They generally don't play that way and I don't think they would play that kind of game. Assuming for a moment that they decided to do that, to retaliate, they could delay approval of putting in new branches but actually the American banks don't show too much interest in establishing new branches over here. I don't see it (the authorities) as a danger. But, I really don't think it's worth too much time getting into this. No single American bank would want to have its name in the newspapers as opposing the British banks coming into the United States... at least no bank with a substantial amount of foreign business would want to . . . .

**Q:** *The question is, why not? What could happen to them if they did?*

**A:** Let me first say I think they'd be concerned about the attitudes of the British banks. We depend on the British banks to get funds, to fund our operations to some degree through the interbank market... We refer deals to each other on a syndicated loan basis. Our British customers, corporate customers, there's a lot of cross-board representation and so on — it would just be regarded as a chauvanistic American move on our part which would inevitably attach static to whichever specific bank was seen opposing the coming of the British. Is that clear enough?

**Q:** *... You're not talking about Eurodollars... I assume you're talking about sterling or both?*

**A:** Mainly sterling, although to some degree there are dollars back and forth. But they depend there on us as well, except that the banks are customers of ours here and we are customers of theirs and the interaction is important to us in doing our business in a great variety of ways. For example, we have to have a British bank clear our checks for us ... in sterling.

**Q:** *Could you tell me whether you have discussed this with your British banking customers ...?*

**A:** They have not been after us one way or the other to support it and, uh, I think they have assumed that we would not oppose it ... given our large overseas network I think our banks generally ... would not oppose it, are basically in favor of a more open, unregulated approach to these banks, and allow each in the other's markets. Of course there's a slight problem here in that we're at a double competitive disadvantage since we can't buy British banks, and we, as American banks, can't buy American banks.

**Q:** *That doesn't bother you at all?*

**A:** I think it does bother us but ... that's a corporate policy.... It does concern us but whether it concerns us enough to get up on the soapbox is another matter . . . . Our attitude is generally to promote as much open competition as possible . . . .

**Q:** *You didn't express an opinion one way or the other to the Federal Reserve Board while they were considering these purchases then?*

**A:** No, well some of the Federal Reserve people have been over here, and Ryan and Dahl were here, and so on. No, uh, to my knowledge the bank has not taken a stand on this one way or the other, but once again I think Al Costanzo, our Vice-Chairman in New York . . . .

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## DOMESTIC CREDIT MARKETS

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### IMF fuels high-interest rates in the United States

The current official unemployment rate in the United States, 5.7 percent, "corresponds to full employment," according to a confidential staff report prepared by the International Monetary Fund for its Interim Committee in early March. The report also claimed that the gap between actual and potential output of the U.S. economy was "virtually nonexistent" in the second half of 1978. In other words, the report intimates that the U.S. economy is now effectively facing the limits of full productive capacity and any further expansion of output will be wildly inflationary.

The IMF report which was leaked by the *New York Times* March 13 amid the growing atmosphere of Peanutgate, urged the Carter Administration in threatening tones to adopt tighter monetary and more stringent fiscal policies.

It is becoming apparent even to the foggiest economic observers, however, that Federal Reserve Chairman Miller's high interest policy has thus far only fueled U.S. inflation by prohibiting long-term capital investment and increasingly shifting credit demand to the short-term side of the market.

#### The Mexican solution

In recent weeks, both French President Giscard d'Estaing and a leading Mexican official have directly challenged the specious Philips Curve reasoning behind the IMF's dictates. The Philips curve maintains that rising employment and growth inevitably entail inflation. "To fight inflation, there is no way other than to increase production and productivity," Mexican Min-

ister of Industry and Natural Resources José Andres de Oteyza said in his presentation of Mexico's ten-year industrial development plan March 12. "We are fooling ourselves by thinking that we can solve inflation by increasing unemployment."

The best cure for the current double digit inflation in the U.S. argue those who accept the two leaders' reasoning, would be a large dose of low interest credit invested in capital-intensive production — following the "Mexican model."

It is the price and use of credit in any economy which make the difference between an inflationary bubble and noninflationary growth. Historically, high interest rates have been the principal engine of inflation in the U.S. economy over the last few years, not "overexpansion." Long-term rates have remained at the 8-percent-and-above level for AAA-rated corporate bonds since the 1974-75 recession. That condition hardly encourages the type of long-term, deflationary investments hailed by Minister Oteyza. Fed Chairman Miller's high-interest-rate "anti-inflation" policy has aggravated the condition of chronic inflation by sucking liquidity into short-term high-yield investments, thus fueling a spiral of short-term rates and further undermining productivity-increasing new capital formation.

The recently released Federal Reserve flow of funds data for 1978 indicates how this process has worked. The nonfinancial sector rushed to borrow a record amount

of \$285.2 billion in 1978, compared with \$245.6 billion in 1977, before interest rates went even higher. Miller's monetary policy, which pushed up the prime rate for its 1977 average of 6.83 percent to 11.25-11.5 percent by the end of 1978, resulted in sharply higher financing costs on this record amount of new credit. These financing costs were then passed on in price increases that fueled the inflation rate.

Furthermore, the high interest rate environment left corporate treasurers no choice but to play the arbitrage game, and shift the funds under their management to different currencies and money market instruments in search of yields at least as high as the prevailing rate of interest. Given the resulting dearth of real capital formation in the U.S. economy, capacity utilization now reaches the 85 percent mark, and costly bottlenecks and breakdowns are inevitable. These are symptoms of *underinvestment*, however — not signs that the U.S. economy has overexpanded, as the IMF says.

In an interview with this news service, George McKinney of Irving Trust described the cycle of rising interest rates and inflation and weakening corporate liquidity which is now in full swing. Since the mid-1960s, corporate borrowers have avoided getting locked into high, long-term interest rates, and lenders have been unwilling to lend long-term at the low rates corporations were seeking. The result has been a shortening of the typical debt maturity and increasing pressure on short-term rates.

At this point in the current business expansion, said McKinney, we are witnessing an accelerating decline in corporate liquidity because of the mounting short-term indebtedness of the corporate sector. McKinney added that he would be very surprised if short-term rates had peaked for the present.

-Lydia Schulman

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## TRADE

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### Governors push for national action on export

A group of U.S. governors has formulated a very promising approach to expanding U.S. high-technology exports to every sector of the world and for reining in the power of the various Carter Administration agencies to kill export potentials. At hearings before a subcommittee of the Senate Banking Committee on March 12, Georgia Governor George Busbee and Texas Governor William Clements presented an eight-point policy recommendation

on increasing exports and proposals to amend the Export Administration Act of 1969 which is up for renewal this year.

This package was first presented at the governors' semiannual meeting in Washington, D.C. on Feb. 25. As the head of the Governors' Committee on International Trade, Governor Busbee addressed a seminar on exports: "I believe special attention must be given to manufacturing involving high tech-

nology, since that is where our competitive advantage in foreign markets often exists.... But this is the same area where the disincentives or barriers to exports tend to be the greatest.

Mark Shepherd, Jr., chairman of Texas Instruments, told the same seminar that while "capital outlays ... create the new capacity essential to a growing economy and it is through new equipment and facilities that more advanced technology is injected into the economy, the impact on productivity of a dollar spent for research and development is several times that of a dollar invested in fixed capital." Shepherd proposed to the governors that Congress and the Administration seriously examine a tax credit for research and development expenditures similar to the investment tax credit.

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## CORPORATE STRATEGY

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### Businessmen beware

The firm resolve of the Mexican government of President López Portillo to commit revenues from Mexico's virtually limitless oil reserves to fund a national industrial development program, has caught the imagination of an increasing number of businessmen. But if they chose the wrong "connection," U.S. and foreign corporations and banks looking to enter the Mexico market could find themselves in touch with

the anti-industry faction — the one that is firmly out of power — and may even be set up for involvement in a Mexican "Watergate."

A case in point is the inquiries made by at least two Japanese firms to New York merchant banks, Lazard Frères and Lehman Brothers Kuhn Loeb. Both are well known for the extensive international ties.

Contacting Kuhn Loeb will get

the inquirer their Mexican expert, José de Cubas, the author of the Council of the Americas' "free zone" plan for sweatshop industry in a strip 50 miles on either side of the Rio Grande — a sort of "Hong Kong West." Referring to his authorship, de Cubas says: "That's my brainwave."

Yet, the Mexican government, while still accepting this investment in border assemblyline plant industries, is leaning toward convincing new business to locate in accordance with the nationwide Mexican industrial program.

De Cuba's highest level contact to Mexico is said to be Fernando Hiriart, an official in Sepafin, the Mexican Industry Ministry. Hiriart, as head of the energy section of Sepafin, is known to have impeded Mexico's energy development — both oil and nuclear — and is an outspoken champion of solar power. The Mexican government, in contrast, is committed to building

### What the governors proposed

The governors' proposal is to recast the Export Administration Act of 1969 to state that the U.S. national interest lies in exports and stipulates that the burden of proof is on the government to show cogent reasons why any productive commerce should be prohibited. Also proposed was a large-scale educational campaign to make "people, including youth, in all regions of the country aware of how export trade affects them individually, their state and their nation," as a way of ensuring that the vague "security threat" rulings used by the Administration against trade deals will cease.

The governors proposed four levels to the export administration structure: First, the administrative level. The Export Administrative Office would remain in the Department of Commerce and be directed

by an interagency board, the National Export Administration Board (the next level), composed of three voting members—one each appointed by the secretaries of State, Commerce, and Defense. The third level would be an Export Administration Review Council with members appointed by the same agencies. At top would be the President.

Every export license would be voted on—consensus would be replaced by a majority vote. Reasons for denial of any export license would be fully reported and the entire process, from submission to final appeal, would by law take no more than 90 days.

The governors also proposed a clarification of the definition between legal facilitating payments and illegal banks which is now subject to the interpretation of the Securities and Exchange Commission, the

IRS, and the Justice Department.

Besides taking the Governor's recommendations to the Senate, Texas Governor Clements announced last week that he would lead a "people to people" delegation to the Soviet Union this year. Governor Clements, who called for Schlesinger's resignation at the Governors' Conference, is also organizing a June conference of all four U.S. states bordering Mexico—Arizona, California, New Mexico, and Texas—to which the governors of Mexico's four border states will be invited.

Washington State Governor Dixy Lee Ray has meanwhile dispatched her entire Energy Department to West Germany at the invitation of the government of Chancellor Helmut Schmidt.

—Richard Schulman and  
Anita Gallagher

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20 nuclear power plants by the year 2000, in addition to large-scale utilization of its oil production domestically. The government has also pledged an 18-20 percent growth rate in the capital goods sector and intensive development in key port areas.

The government's plans were exemplified by the nearly \$4 billion in high-technology contracts initiated or signed during French President Giscard d'Estaing's historic visit to Mexico a month ago.

### The Bustamante connection

Similar inquiries made to Lazard Frères may result in a connection with Roberto De la Madrid, who, Lazard may correctly claim, is governor of Baja California state. De la Madrid's top business and/or political connection is to Carlos Bustamante, a Vescoesque figure with extensive business connections to both sides of the border.

U.S. businessmen may not be

overly concerned by the myriad Bustamante connections exposed by the *New York Times* on March 11 and 12, but his intimate ties to California Governor Jerry Brown are important.

Brown is known to have pressured Blyth, Eastman and Dillon to release its North American Common Market plan to the White House before President Carter's February Mexico trip so that Carter could push this plan with Portillo. According to Kenneth Hill, a director of Standard Oil of California and self-proclaimed author of the Common Market idea, Brown intends to use this program as the centerpiece of his presidential bid.

As for De la Madrid, he supports the "free zone" idea — he wants to allow 100 percent foreign ownership instead of the present 49 percent maximum — and thinks that gambling is the key to Mexico's future. In this, he thinks like Mex-

ico's tourist czar and former President Miguel Aleman, who called for a Common Market as early as 1971.

The Common Market plan would annex Mexico to the United States and Canada and make its oil a strategic reserve. The Mexican government flatly refuses to discuss the plan.

Manuel Buendia, a columnist who is friendly with the Portillo government warned in the Mexico City daily *Excelsior* on March 21, that the ties between Brown, De la Madrid, and Bustamante could spiral into a Mexican "Watergate."

So although Mexico holds considerable promise, making the wrong connection could be unproductive — if not costly.

— Leif Johnson

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## COMMODITIES

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### Round two

Metals analysts across the United States released estimates this week of the inflationary impact on U.S. industry of the November 1978-February 1979 rise in base metals prices. In those four months alone, U.S. copper prices rose 42 percent, aluminum 5 percent, lead 21 percent and zinc 10 percent.

In a special report, Continental

Bank of Chicago's industrial economics division predicted March 19 that metals price increases will continue for most of 1979, producing an average rate of annual inflation in industrial raw materials of 12 to 14 percent.

The open question at this point is whether a new round of price hikes will provoke a repeat of the

1974 combined oil and raw materials shortage scare, which laid the groundwork for the most massive inflationary explosion in U.S. history.

#### Corporations cautious

In contrast to 1974, U.S. corporations are presently taking a cautious approach towards the commodity price increases. The National Association of Purchasing Managers (NAPM), the group which handles materials buys for large industrial users, emphasized in its latest monthly report that the price situation, despite the increases, was still well under control.

This signals that the NAPM has not been pressed by corporations to massively stockpile copper and other materials "to head off" more pending inflation. The coming weeks will be decisive in determining whether U.S. companies are ready to stick with this attitude, or fly into

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## GOLD

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### New official price for gold?

The gold bullion price has remained remarkably stable, hovering near the \$240 per ounce level for the past three weeks. But gold rose to as high as \$244 at the London afternoon fixing on Friday, March 16, perhaps reflecting a dawning recognition that the Israeli-Egyptian agreement is more likely to promote war than peace in the Middle East region.

However, the gold price again came under downward pressure

following the news that the U.S. Treasury, at its regular monthly auction held on March 20, had sold gold at an average price of \$241.30 — considerably below that day's London fixings. West Germany's Dresdner Bank was once again the largest single successful bidder at the auction, taking 274,000 ounces out of a total 1.5 million.

Gold market experts have begun to openly discuss the stabilizing im-

pact which the European Monetary System, formally launched on March 13, is likely to have on the gold market. The West German metals firm Degussa, which is closely associated with Dresdner Bank, stated in a recent report that the EMS would in effect establish a new official price for gold. Under the EMS agreement, the participating European central banks will pool 20 percent of their gold reserves in a central fund, known as the FECOM, and Gold will be valued at what was the average market price during the previous six-month period. Since these pooled gold reserves will in turn provide the basis for generation of credits, it will naturally be in the interest of the central banks to ensure that the gold price does not fluctuate too wildly in either direction.

Degussa's report predicts that gold prices will range between \$200 to \$275 an ounce during 1979. While

the panicked, massive stockpiling which occurred through most of 1974, until the commodities boom blew out at the end of the year.

#### **Oil factor**

As in 1974, the November-February price takeoff can be traced to international oil developments.

The recent four month price jump began with copper, an industry which had slumped into a full-scale depression both on the mining and refining side since late 1974.

As a result of the long-term depression conditions in copper prices, industrial users permitted their inventories to be drawn down to very low levels, knowing that cheap copper would be available at any time. Starting in March 1978, inventories on the London Metal Exchange as well as those maintained by U.S. corporations were so low that commodity traders

worldwide knew the bottom had been reached.

It was just a matter of timing for keen commodities investors in New York and London to set off a wave of new purchases in copper, the "pacesetter" in the nonferrous metals group which drags all the other metals along.

During October-November 1978, British Petroleum and Royal Dutch Shell launched a concerted effort to rig international oil prices upward, in conjunction with BP's open moves to wreck agreements with and destabilize the government of Iran. On cue, London-linked investors began to liquidate medium and longer-term investments, parceling out these funds released for short-term speculation between currency and commodities transactions.

When Iran's government collapsed and war broke out in Asia, the copper price took off, reaching

\$1.00 per lb. for a few days in the U.S.—almost double the 1978 price.

Numerous sources have suggested that the "take-off" last November may also have been triggered by major London market sales of copper, often called the "wartime metal," to the People's Republic of China. While such reports are nearly impossible to confirm, it has been definitively reported in the monthly statistical report of the U.S. Bureau of Mines that during January 1979, the very eve of the outbreak of war in Asia, the first shipment of U.S. copper to China in 30 years was concluded by a U.S. metals trading firm.

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downward pressure will stem from the enlarged U.S. Treasury and International Monetary Fund sales and from the possible deflationary effects of a U.S. recession, should one develop, Degussa notes that the existence of the EMS will put a defacto "floor" under the gold price.

The Degussa report confirms what other sources close to the West German monetary authorities have told *Executive Intelligence Review* in the past: namely, that the EMS governments are aiming to keep the gold price at about \$230 to \$240, in the middle of Degussa's specified "range." Jürgen Ponto, the assassinated chairman of Dresdner Bank, also sat on Degussa's board. Close to Chancellor Schmidt, Ponto reportedly helped to develop the "Grand Design" conception underlying the formation of the EMS.

—Alice Shepard

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## **KEEPING TABS ON THE ECONOMIST**

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### **Whose follies?**

*In our weekly check of the accuracy of the London Economist's reporting across a mendacious slur directed against French President Giscard, in the magazine's March 17-23 issue.*

#### **The Economist**

"French follies": President Giscard d'Estaing, in the chair, had a rough time at the summit... The initiatives he proposed did not go down well with the other leaders... But Mr. Giscard d'Estaing's embarrassment was not at an end... He had to share a platform with Mr. Roy Jenkins, the president of the commission... (who) insisted on giving his version of the events.

#### **The facts**

Giscard d'Estaing, President of the European Council, received a mandate from other government leaders to "meet with the current Organization for African Unity leader, Numeiry from Sudan, as well as with leaders of the Arab League," Giscard told a press conference, after "noting the positive atmosphere of the reactions" to his proposal for a European-Arab-African summit.

## British go begging to the EMS

*As the world center of monetarism, the British economy well reflects the results of monetarist economic policies. Each week, the Executive Intelligence Review's Britain column brings a report highlighting the deterioration of the United Kingdom's economy.*

It is not often that a beggar comes to the table brandishing a big stick and threatening to overturn the banquet table. Yet that is exactly what Britain is now doing. After claiming for months that it did not "need" the European Monetary System, the British government is now first on line to demand access to the new system's credit facilities.

According to sources in Brussels, quoted in the March 7 *Guardian*, Britain is now seeking a share in the major European Community credit scheme under which the less prosperous members of the EMS can borrow at reduced interest rates. In fact, at the EEC Finance Ministers meeting March 19, British Chancellor of the Exchequer Denis Healey demanded that Ireland and Italy—which have been granted interest rate subsidies of some \$1.35 billion to ease their entry into the EMS—should be dropped if necessary to make way for the more needy British. Healey said flatly that Britain would veto the EEC resolution providing for the release of funds to Ireland and Italy unless it was altered to specify that Britain would be entitled to the same special treatment if the government changed its mind on joining the EMS.

### **Ain't too proud to beg**

British authorities appear to have realized only belatedly that if the U.K. did enter the system, it could be on the receiving end of a similar veto from a blocking minority of other EEC governments. EMS heads of state are none too pleased with Britain's petulant behavior and bullying tactics in Brussels and are not in the mood to extend any special concessions to the British, who until the actual launching of the European Monetary System were claiming that the proposed credit arrangements were a mere "book-keeping device." Nor did Britain wish to participate in the currency stabilization scheme, lest this prevent the pound's value from reflecting the true strength of the British economy.

Are the British ready to beg for membership, if they cannot disrupt the EMS by other means?

Even British bankers now admit that the present boomlet in North Sea oil production which is accounting, in large part, for the unexpected upsurge in sterling masks a far more serious syndrome. The strength of sterling, confessed the *Financial Times* Feb. 14, is more a liability than an asset and "does not reflect underlying strength, but a strange combination of luck and bad management." This mysticism has been translated by industrialists to mean that the over-valuation of sterling could erode Britain's export competitiveness.

A director of Morgan Grenfell & Co., a London-based international bank, remarked in a *Journal of*

*Commerce* interview that the improvement in Britain's balance of payments situation based on North Sea oil "would be matched by a deterioration elsewhere ... so that a progressive loss of industrial competitiveness is likely."

Britain's statistical entrails are also wriggling in a most unseemly manner. All four of the government's cyclical indicators—ranging from one looking ahead to turning points 12 months ahead to one lagging behind 11 months—have fallen this year. Prime Minister Callaghan told Parliament this week that Britain faces an inflation rate of 10 percent this year. Retail prices climbed up by 9.6 percent from a year earlier as compared to increases of 9.3 percent in January and 8.9 percent in December.

Although unemployment figures just released show Britain's jobless rate down 12,000 from February at 5.7 percent, the British press is filled with daily reports of plants closures and layoffs. Exemplary are the decisions by the Goodyear and Dunlop tire companies to close down their antiquated plants in Scotland and the announcement by British Steel Corporation that its iron and steel-making plants at Bilston and Corby will be shut down within 12 months, at a cost of 4000-4500 jobs.

An official at the British Embassy in Washington thought it "quite right" that Healy should demand treatment "on a par with Italy and Ireland," since it had been originally agreed that the "less prosperous" countries in the EEC would be accorded special arrangements to ease their transition into the EMS. Apparently Britain is now admitting that it has joined the ranks of the underdeveloped European countries. The Embassy economics spokesman complained that Britain needed funds for "infrastructural development" as badly as Italy and Ireland do.

—Marla Minnicino

# The battle over energy

*Producer-consumer plan counters London's oil hoax*

A major political fight is presently underway in every major world capital over global energy policy in the wake of Iran's Dec. 26 shutdown of its 5.5 million barrels a day of exports. The European Community and the leading members of the Organization of Petroleum Exporting Countries (OPEC) — notably Saudi Arabia and Iraq — have made it clear that only an institutionalized producer-consumer cooperation can resolve the energy problem and forestall another fullscale crisis. U.S. Energy Secretary James Schlesinger has informed Europe that Washington at present does not support that initiative.

Schlesinger, in alliance with the Anglo-American Eastern establishment and the Zionist Lobby's congressmen, Church, Jackson and Javits, is moving to force an oil crisis as part of an international effort led by the City of London to destroy its greatest rival, the newly formed European Monetary System (EMS). As this section will show, there is no oil shortage. In fact, in January of 1979 total OPEC output was higher than January 1978, even with Iranian exports completely shut off.

What Schlesinger and his allies are counting on is a major sabotage of the Mideast oil fields. The Camp David separate Mideast peace is calculated to provoke the Arabs into oil retaliation. Earlier this week, Palestine Liberation Organization chief Yassir Arafat called for an embargo against the U.S., feeding Washington's oil crisis mongers. Our OPEC coverage will detail the relationship between the upsurge of price hawks and the anti-Western Islamic Fundamentalist Muslim Brotherhood. Just this week the president of Afghanistan, who is being challenged by Muslim insurgents, publicly declared that Islamic reaction is being run out of Paris and London.

The scheme to force higher OPEC oil prices is part of a broad plan to soak up dollar reserves from Japan and Europe via the OPEC nations. Our Japan story shows this ploy aimed at increasing petro-dollar deposits in London and the U.S.

The oil weapon, as in 1974, is being brandished by

the same London-Israeli machine, and for the same reasons: to halt world economic growth which threatens its financial and strategic interests. The current crisis could conceivably destroy the U.S. oil industry. U.S. oil's alternative is spelled out in this section. In broader terms our concluding story on producer-consumer cooperation shows the global alternative to energy blackmail. The question is, will Europe, Japan, and their industrial U.S. allies collectively flex their political muscle sufficiently to challenge London and Washington?

## What is shaping OPEC pricing policy?

Within every member nation of the Organization of Petroleum Exporting Countries (OPEC), there is a debate growing over fundamental economic policy. That debate has and will continue to affect the pricing and production policies of the cartel as a whole.

The recent pattern of individual OPEC nation price hikes is to a great extent symptomatic of the influence of political elements within each country which not only favor a short-term monetary gain off of the tight supply situation sparked by the shutdown of Iran's oil exports, but also espouse a radical anti-Western foreign policy orientation. March 26 marks the date of an OPEC consultative meeting where the power of this "price hawk" faction will be measured by their ability to win a majority for a second price hike in 1979.

To date, only Saudi Arabia and Iraq have exhibited an inclination toward moderation and cooperation with the consuming nations on future oil policy. But even within these countries the militant price hawk faction is waging a strong opposition. Within Africa and the

Mideast as a whole, two political factors predominate. First is the upsurge of Islamic fundamentalism organized into the Muslim Brotherhood, associated with Iran's Ayatollah Khomeini. The Brotherhood's outlook is staunchly anti-Western and favors raising oil prices and reducing oil production as a show of militant sentiment. Second is the effect of the Camp David separate peace between Egypt and Israel which is slated to be signed the very same day as the OPEC March 26 meeting in Geneva. In both cases, the London-Washington-Jerusalem axis which rigged Camp David is behind the scenes manipulating for another OPEC price hike, in order to destroy the City of London's greatest adversary — the European Monetary System — by imposing energy austerity worldwide.

### **An uncanny British prediction**

Not long before the downfall of the Shah of Iran in late 1978, London's Royal Institute for International Affairs (RIIA) produced a study predicting that the largest multinational oil companies would begin to reduce their production operations within the Mideast because of the lack of profitability as a result of nationalizations. Since then Exxon has announced its intentions to let all of its sales contracts with other oil companies and traders lapse. That policy, the first of its kind to be enacted in full by a major company, is calculated to force the smaller oil companies which bought from the majors to go to the producers directly for crude purchases. British Petroleum and Royal Dutch Shell have enacted such a policy in part.

The March 19 issue of *Petroleum Intelligence Weekly* anticipated a new round of direct sales contracts, but indicated at the same time a potential hitch in such arrangements — the future political instability of the major oil-producing nations which could interfere with direct sales. As *Executive Intelligence Review* has repeatedly documented, the turmoil in Iran was launched by London and its Washington allies as an entrée for region-wide chaos, justifying a NATO-style military domination of the oil-producing region and a net reduction in oil output in relation to world consumption.

What follows is a brief summary of the internal political situation in the key OPEC nations which will decisively influence their future oil policy.

**Saudi Arabia.** The Camp David treaty has had a serious impact on the balance of power in Saudi Arabia. At present, contending factions in Riyadh are at loggerheads over sensitive and fundamental policy issues, including the future levels of Saudi oil output. Decisions must be made on whether to extend billions for installing new production capacity. First Crown Prince Fahd, the heir to the throne of ailing King Khalid, favors a move to up the production ceiling to over 14 million barrels a day (mbd) from the present 11.8. He is being opposed by

Second Crown Prince Abdullah. Inside sources concur that Abdullah and his allies, Planning Minister Hisham Nazir and the head of the Saudi state oil company Petromin, Abdul Hadi Taher, want to cut back Saudi oil production and impose higher prices.

Abdullah is a known prominent figure in the Muslim Brotherhood with ties to British intelligence via the Brotherhood. It is around this issue of oil pricing and output and Fahd's collaboration with the founders of the European Monetary System that Abdullah is now making his power play. Abdullah gained some faction ammunition against the traditionally pro-U.S. Fahd in the wake of Washington's apparent success in forging a separate peace against Saudi Arabia's advice, but the fight is far from resolved.

**Iran.** Iran's oil production has climbed to over 2.7 mbd since the March 5 date of resumed exports. Prime Minister Bazargan's government has agreed to a number of direct sales agreements, bypassing the now-defunct consortium of major oil companies. The validity of these contracts, however, rests on the future stability of Iran. No one is placing any bets on that. The recent upsurge of tribal insurgencies in Kurdistan, Baluchistan, and other areas portends another round of turmoil for Iran — this time more devastating than when Khomeini seized power from the Shah.

The Iranian daily *Kayhan* has warned that the country may become a new Lebanon at the hands of foreign agents provoking such insurgents. Inside Iranian sources confirm that both the tribal unrest, challenging the central government's authority, and the ultraradical elements around the Ayatollah Khomeini are tied through various intelligence conduits to Israeli and British intelligence. The most prominent personage involved is the Deputy Premier for Revolutionary Affairs Ibrahim Yazdi who is associated with French radical terrorist and environmental circles allied to Jean Paul Sartre and Pierre Vigier (a leader in the 1968 French student upheavals). This faction is fighting to impose a ceiling of no more than a 3 mbd output for Iran, half the prerevolutionary levels.

There is an intense fight going on between Yazdi and nationalists in the Bazargan government over oil policy. Khomeini himself has ties to the Muslim Brotherhood through the Pakistani Jamati Islami and networks in Libya and Algeria. George Ball's forecast last week in the *Washington Post* of Iran becoming another Lebanon is not Ball's personal prediction. The forecast came through his affiliations with Zbigniew Brzezinski, the U.S. security chief, and top Zionist lobby interests who are forecasting a live scenario for fomenting Mideast instability along the lines of a formula drawn up by Princeton University Professor Bernard Lewis, a Britisher by birth with well established ties to Israel and the Zionist lobby.

**Iraq.** The recently concluded secret agreement between the erstwhile leftist Iraqi government with the conservative Saudi Arabians has changed the political geometry of the Mideast. But numerous Arab watchers feel that the Iraqi Baath leadership may be hit by Kurdish insurgency on the Iranian border. The Iraqi Communist Party which backs the Kurdish insurgents has condemned the Saudi-Iraqi alliance. Iranian press sources report that in late February Iraqi military planes strafed Kurdish regions to put down violence.

**Libya, Algeria.** Both the ascendancy of Khomeini in Iran and the recent death of Algerian President Boumedienne have shifted the political geometry in this region, making these countries more vulnerable to the Muslim Brotherhood. In the last month, two pro-European cabinet ministers have been dropped from the two governments: Algerian Foreign Minister Bouteflika and Libyan Prime Minister Jalloud, a powerful moderating force. In both countries, the new orientation is toward the "rule of the masses," evidencing the influence of Khomeini. Only this week the two countries concluded talks with London on imposing price hikes on their high demand light crude of up to \$5.00 a barrel.

Nigeria is reportedly going along with such proposals and, like Iran and Iraq, has been hit with threats of tribal insurgencies. There is a very strong and growing Muslim Brotherhood component in Nigeria. Indonesia, which announced a production cutback, has also experienced an upsurge of Muslim Brotherhood activity.

**Venezuela.** The new government of President Herrera Campins has announced its intentions to impose a \$1.72 a barrel price hike for the second quarter of 1979. A recent editorial which appeared in the New York Spanish-language daily *El Diario* states that Venezuela sees its interests increasingly within the Western Hemisphere, a heavy hint that it may be shifting away from an OPEC orientation.

The Carter Administration, backed by the Zionist lobby, has been pressing both Mexico and Venezuela to submit to a Western Hemispheric oil marketing arrangement, one which would require the busting of OPEC. Venezuela has traditionally played a powerful role within the cartel mediating between the price hawks and the moderates. A preliminary look at the new government indicates that role may now be in jeopardy. Herrera Campins is under tremendous pressure at home to adopt a price hawk posture, something that former President Carlos Andres Perez consistently resisted.

— Judith Wyer

## Mexico, EC, OPEC to challenge oil hoax

When the European Community (EC) heads of state meeting on March 12 endorsed both Saudi Arabia's call for a world oil producers-oil consumers conference and the long-standing Mexican proposal for institutionalized global consultation on energy, a major step was taken toward formation of an international force powerful enough to challenge the London-sponsored hoax of a "world energy crisis."

Now, according to Mexican sources, the EC is preparing to establish official contact with the Organization of Petroleum Exporting Countries (OPEC) to work out details on the proposals, probably before the March 26 OPEC summit. It is expected that the world energy conference could be scheduled within three months.

The combined Saudi and Mexican proposals go far beyond answering the immediate oil crisis hoax. The Saudi proposal is conceived as the continuation of the 1976-77 North-South talks in Paris, and would encompass all aspects of raw material supply, not just energy. The Mexican proposal, keyed to a United Nations framework, calls for international agreements in the production and distribution of oil so that the resource becomes "inseparable from development" within an advancing new world economic order. The Mexicans equally stress the need to rapidly develop alternative energy technologies and place them at the disposal of the developing sector.

But unless, in the short-term, the Mexico-EC-OPEC axis can successfully counter the "bust OPEC" strategy being pursued by London and Washington, deepening contrived energy shortages and price hikes will so destabilize the world political and economic picture that the Saudi and Mexican proposals have little chance of becoming reality.

### Rotterdam and Petronor

This is the significance of the EC heads of state decision to "gather precise and clear information on what illegal actions are being performed by oil companies in Rotterdam and elsewhere." Rotterdam is Europe's biggest spot market for crude and, since the beginning of the year, has been the speculative playground of trading companies fronting for the two British companies which have been calling the tune for the Seven Sisters as a whole: British Petroleum and the Royal Dutch Shell.

A step in the same direction was taken by Mexico and Spain March 10, when they announced that negotiations for the Mexican national oil company Pemex to acquire 33 percent of the Spanish Petronor refinery at

Bilbao had been completed. The successful conclusion of the talks, begun three months ago, gives Pemex a foothold for direct refining and distribution in Europe. The action hit the Seven Sisters in two ways. Not only had Royal Dutch Shell offered one of its Rotterdam refineries to Pemex as the alternative route for Mexican penetration of the European market, but Pemex is replacing Gulf — one of the Seven Sisters — as the minority partner in the Petronor complex.

Spain's Prime Minister Adolfo Suarez and the heads of state of Bolivia, Costa Rica, Colombia, and the Dominican Republic, gathered in Caracas on March 12 for the inauguration of Venezuela's new president and signed a document on the world energy crisis, bitterly attacking "the sharp speculation through 'spot' prices which leaves our nations bereft of economic strength."

But the document also indicated a fundamental weakness. It termed world energy manipulation largely "beyond control" and called for solidarity in austerity measures among the signatory countries.

### **In-depth push from UNIDO**

A meeting of the United Nations Industrial Development Organization (UNIDO) on petrochemicals in Mexico City this week emerged as a key planning session for the energy counterpole taking shape.

The Algerian director of UNIDO, the Secretary-General of OPEC Abd Rahman Khane, said that "not only Milton Friedman, but many other people as well, want to see OPEC disintegrate.... (But) OPEC will endure. Should OPEC disappear, that would be the end of the new international economic order."

The goal Khane set at the meeting was for 35 percent of world petrochemical production to be produced by developing sector nations by the year 2000. He attacked oil multinationals for denying the Third World the technology it needs to achieve such a goal. "We must change the structures of cooperation"; no more "colonialism," only "partners."

When U.S. and British delegates on behalf of the oil multinationals argued that advanced sector economies would only lose by such petrochemical expansion in the

Third World, delegates from throughout the developing sector listed the ABCs of world economic growth: expansion of Third World industry means greater demand for capital goods, machinery and technology from the advanced sector.

The final conference document upholding this view stands as a companion piece to Mexico's proposal for a \$15 billion fund for joint development of advanced sector and Third World capital goods industries, endorsed last week by the Group of 24 developing sector nations at the IMF Interim meeting in Washington, D.C.

"This is a test of the UN charter setting up the new world economic order," stated Khane of the UNIDO conference. "Cooperation between the developed and developing countries" is the only road "to real peace."

### **A ten-month fight**

The EC support for Mexico's world energy cooperation perspective caps a remarkable international organizing drive kicked off by President López Portillo in Moscow during May 1978. At that time he first termed oil the "patrimony of humanity" and called for international coordination through the United Nations to achieve this goal.

Then in mid-February 1979, during U.S. President Carter's trip to Mexico, López Portillo's energy diplomacy intensified sharply. The Mexican President urged that "production, distribution and consumption of (energy) resources be made in an orderly and rational fashion and that all alternative sources of energy be developed, including the financing and transfer of technologies ... to all developing countries."

Two weeks later, when France's President Giscard d'Estaing arrived in Mexico City, López Portillo warned of "apocalypse" unless a new order — with energy keyed to development instead of economic warfare — was rapidly consolidated.

Giscard's positive response, taken back to the meeting which officially established the European Monetary System, set the stage for last week's big steps toward a Mexico-EMS-OPEC energy axis.

— Tim Rush

# Oil "shortage": a numbers game

On the basis of analysis of available data and examination even of the official statements of the Schlesinger Department of Energy, we can state bluntly that there is no world oil shortage resulting from the loss of Iranian oil production. The Carter Administration is attempting to impose drastic oil price rises in the form of taxation, oil price decontrol and related measures which will severely affect the domestic economy in the months ahead. All of this is being done not on the basis of real net reduction in world oil supply, as the battle cry from Schlesinger, likening the Iranian disruption to an "energy Pearl Harbor," and the deliberations around the just-concluded "energy" Camp David lead the population to believe.

Some basic and startling facts are in order: first, despite the fact that Iranian oil export has been disrupted until this month, overall OPEC oil production for the period of the most severe cutoff in Iranian oil, January 1979, is *up* from the comparable period the previous year. In addition, because of extraordinary stockpiling before the Dec. 26 OPEC meeting, world oil stocks available for the period of the Iranian loss were actually higher than the same period in 1978, a year which itself saw unusually high oil stocks because of speculative stockpiling in anticipation of an OPEC price rise. The U.S. is being pushed toward a war economy on the basis of a supply crisis which simply does not exist, despite press scare stories of spot gasoline shortages and the like.

## The facts behind the oil situation

Contrary to impression, world oil production in the non-communist world in January was up by a total of 2.5 million barrels per day above the same period in 1978. This included a substantial increase in Saudi Arabia's output from 7.6 million barrels per day to 9.5 and an overall OPEC total increase of more than 3 percent.

Total non-OPEC, non-communist oil production for January was up more than 10 percent, 1.6 million barrels per day higher than January, 1978. The 1979 figures include substantial increases in North Sea and Mexican production for the period. Thus, despite the loss of approximately 5 million barrels a day from Iran for the period, total world production was *up* more than 2.5 million barrels per day above a comparable period when Iran was producing more than 5.2 million barrels. An estimate done by the Library of Congress for the office of Congressman Albert Gore, Jr., calculates that total world net shortfall in production for this period is no more than 80,000 barrels a day — a far cry from the still manageable 2 million barrel per day figure being cited by Schlesinger.

This figure is so small as to be statistically insignificant.

What reserve did the world have coming into the recent Iran disruption for the first quarter? The Department of Energy officially estimated that worldwide stocks of oil coming into the first quarter of 1979 were 4.317 billion barrels. World stocks, that is oil produced, and either in transit or in storage, were 4.276 billion barrels for the same period last year. That is to say that world stocks coming into the Iranian supply disruption were at record highs even from the abnormal highs of the previous year, when stockpiling in anticipation of an OPEC price rise produced a relative "glut." Thus, world oil production has held up during the period of total disruption of Iranian exports, in a period when world stocks were larger than normal to begin with.

## U.S. situation

According to official published figures from the U.S. Central Intelligence Agency, the U.S. domestically available petroleum supply at the beginning of January was 1.32 billion barrels. Comparable figures for the previous two years indicate that this year's U.S. supply was the highest of the last three. In 1978 it was 1.31 billion barrels, and 1.11 billion in January, 1977. In short, the U.S. supply was itself unusually high coming into the period of disruption.

Even taking the estimates put out by Schlesinger directly, domestic demand for petroleum for the month of February, the worst of the Iran shortfall period as it affected U.S. supply, was 21 million barrels per day, up only 1.3 percent from the level for 1978, an unusually miniscule increase in demand. This is reflected in the fact that, according to the *Federal Register* of Feb. 23, domestic inventories were drawn down by 140 million barrels for the two months, compared with a drawdown last year of 106 million barrels, a difference of only 34 million barrels. Allowing for the higher stocks this year, this amounts to a net drawdown of slightly more than 20 million barrels, approximately 300,000 barrels per day, even by government figures.

The figures on which Schlesinger's Department is basing major government policy initiatives is furthermore, in the words of one government General Accounting Office statistician, "very soft data," based on inferences from numbers made available from major oil companies, which give the government figures which are admittedly arbitrary. Every top government source interviewed admitted this arbitrary character of the current statistics, referring to them as a "numbers game." On top of this, total imports into the U.S. for February were up 776,000 barrels per day, an increase of

## January oil production figures show no shortage

In January, although Iranian production reached its nadir, net oil output of the non-communist nations — including both OPEC countries and non-OPEC countries — rose over January 1978. Figures compiled by Platt's Oilgram News show that most producers increased their output in January, more than compensating for the Iranian shortfall. Since January 1978 is regarded as a low production month, we also looked at oil production figures for the OPEC countries for January 1977, a more normal month, and for the entire year 1977, a more normal production year. These figures, too, show that January 1979 production by the OPEC countries as a whole, despite the Iranian cutoff, was comparable to the output in 1977.

\*Includes estimates

\*\*Includes estimates and all Neutral zone production

\*\*\*Totals may not add due to rounding

<sup>1</sup>Source: Platt's Oilgram News, March 19, 1979

<sup>2</sup>Source: Petroleum Intelligence Weekly

	Jan 1979 <sup>1</sup>	Jan 1978 <sup>1</sup>	% chng <sup>1</sup>	Jan 1977 <sup>2</sup>	1977
<b>OPEC producers</b> (millions of barrels per day)					
Saudi Arabia*	9.5	7.6	+25	8.4	9.0
Iran	.4	5.3	-92	5.0	5.7
Iraq*	3.1	2.1	+48	1.9	2.3
Kuwait	2.4	1.5	+53	1.3	1.8
United Arab Emirates	1.8	1.7	+ 6	1.9	2.0
Algeria*	1.2	1.2	—	1.1	1.1
Libya*	2.1	1.8	+15	2.0	2.1
Nigeria	2.4	1.6	+50	2.2	2.1
Indonesia*	1.6	1.7	- 6	1.6	1.7
Venezuela	2.3	1.7	+29	2.4	2.2
Other OPEC**	1.6	1.2	+33	1.2	1.1
<b>OPEC Total***</b>	<b>28.5</b>	<b>27.6</b>	<b>+ 3</b>	<b>29.0</b>	<b>31.1</b>
<b>Non-OPEC Producers</b>					
United States	8.7	8.3	+ 4		
Canada	1.5	1.2	+17		
Mexico	1.4	1.1	+26		NA
United Kingdom	1.5	.9	+65		
Norway	.36	.39	8		
Other Non-OPEC*	4.1	3.9	+ 6		
<b>Non-OPEC Total***</b>	<b>17.5</b>	<b>15.9</b>	<b>+10</b>		
<b>Total, non-communist nations***</b>	<b>45.9</b>	<b>43.5</b>	<b>+6</b>		

almost 10 percent above the same period last year. Hardly the kind of situation to be expected if we have the drastic shortage that we are being led to believe with supply cutbacks of fuel oil and gasoline.

How does the government arrive at its estimates? A GAO official in charge of providing information to Senator Henry Jackson's Energy Committee admitted that "we take an arbitrary figure to calculate petroleum demand—we chose 3 percent. These numbers are all based on statistical extrapolation from one or two companies. What can we do? We have to come up with numbers, so we picked these. There is no data available from the companies that gives an exact picture."

At this juncture, with Iranian oil production resuming, currently at a level of approximately 2.5 million barrels per day, the only basis on which Schlesinger can justify the draconian measures he is attempting to impose on the U.S. economy, in the form of drastically higher energy costs and cutbacks in consumption, is the threat of external disruption of supply from Saudi Arabia and further disruption of Iranian production, or outright terrorist sabotage of refinery capacity. Short of this, Schlesinger is falling short of the facts needed to support his contention to the public that the shortage is real at this point. Even articles in the *New York Times* over the past week have led with headlines such as "Oil 'Facts' Don't Quite Match the Rhetoric,"

while the *Journal of Commerce* says, "Oil Shortage Fears May be Premature."

At this point it is clear that the combined inventories of the multinational oil majors, led by British Petroleum, Royal Dutch Shell and Exxon, are bulging at the seams.

The only immediate question of importance is which companies are storing how much of this stockpiled inventory, whether in tankers off the Norwegian fjords or in storage depots around the world. It is openly acknowledged by oil analysts and others now that this accumulation of company inventory is substantial. Congressman Albert Gore took note of this when he hit the real danger of rising prices caused by this withholding of stocks to keep high price pressure: "To the extent that their (the oil companies—ed.) decisions to build inventories have enhanced the atmosphere of shortage panic ... as a result, I believe ... the impending 'price crisis' has become more serious than the current supply shortfall." He added that "Schlesinger seized upon the current shortfall to build support for policies deliberately designed to produce much higher consumer prices.... Sharply higher prices risk simultaneous recession and double-digit inflation."

—William Engdahl

# A case study: the oil weapon vs. Japan

Japan has been made a special target of the oil weapon. Senator Jacob Javits (R-NY) made clear why in a March 19 Senate speech. Calling for "IMF control over surplus as well as deficit nations" and for a one-third cut in U.S. oil imports, Javits said: Our allies should understand what the British understand. The Tokyo Economic Summit (scheduled for this summer — ed.) is the watershed ... no longer is OPEC the problem, Japan and West Germany are the problem."

Japan is on the hit list for oil supply cutbacks and price hikes because its Tokyo Capital Market intends to use surplus dollars to help finance Third World development. Explained one leading official at the Brookings Institution: the effect of the oil price hikes "would shift the surplus dollars out of the hands of Japan (and Germany — ed.) and into the hands of OPEC, making the recycling problem much different."

As long ago as last September, the *International Currency Review*, a publication of the banking house of Rothschild, was critical that the surplus dollars in the hands of Japan and West Germany were being used for "political purposes" — through the European Monetary System and the Tokyo Capital Market. The *Review* yearned for the days of 1973-74 when OPEC had surplus dollars and deposited them in London's banks. Of course, bringing back those days means busting OPEC.

## Hitting Japan's oil supplies

Two weeks ago, Exxon, prompted by a 1 million barrel per day cutback from British Petroleum, announced a policy of not renewing third party contracts to supply oil to nonaffiliated refineries. Beginning April 1, Exxon's policy will reduce Japanese oil supply by 2.2 percent. By October, supplies will be cut by 3.5-4 percent.

Last week, Royal Dutch Shell announced a cutback to Idemitsu oil, the largest non-foreign-affiliated refiner in Japan. Additional cutbacks expected from Shell would cut Japan's oil supply by another 2 percent, bringing the total of Exxon and Shell to 5.5-6 percent by the end of this year.

So far, Japan is making up this deficit by increasing

its purchases from Saudi Arabia and by direct deal purchases of 5-600,000 barrels per day from Iran by four trading companies — Mitsui, Mitsubishi, Marubeni and C. Itoh. Idemitsu Oil and Japanese oil company circles are confident of securing more direct deal purchases from Iraq. But Japan will be in deep trouble if London succeeds in destabilizing Iran, Saudi Arabia, and the other OPEC nations and if the other oil majors follow the path of Shell and Exxon.

## What cutbacks would mean

Of all the advanced sector nations, Japan is the most vulnerable to political blackmail through the oil weapon. Of Japan's total consumption, only 22 percent is purchased in direct deals by wholly Japanese-owned refiners from the oil producers. Another 7 percent is purchased from such firms as France's state-owned CFP, Getty, and Union Oil of the United States. The remaining 70 percent is purchased from the Seven Sisters, 40 percent by their own affiliates in Japan and 30 percent through third party contracts.

Cutbacks in Japan's imports have four times the impact of an equal cutback in U.S. imports. Japan imports virtually all of its oil, while the United States only imports 50 percent. Japan uses 70 percent of its oil for industry, while the United States uses only 40 percent. There is much less room for turning down the thermostats or driving slower. More than a 3 percent cutback, and industry begins to hurt.

Beginning in 1973, Japan embarked on an ambitious campaign to end this dependence by securing oil-for-technology economic cooperation agreements with the OPEC nations. Prior to the oil crisis of 1973, Japanese and European firms held discussions with Saudi Oil Minister Sheik Zaki Yamani to create a Euro-Japan oil consortium for direct deal purchases from Saudi Arabia, bypassing the majors. Henry Kissinger quashed this move following the October War.

Since then, Japan has engaged in development projects amounting to tens of billions of dollars in Iran, Iraq, and Saudi Arabia. Idemitsu Oil has ties to Iran's Prime Minister Bazargan that date back to the late 1940s when it assisted then head of the National Iranian Oil Company, Bazargan, to break British Petroleum's embargo on oil purchases from the Mossadeq government.

The oil weapon is forcing Japan to expand its oil-for-technology approach. Its success will depend on the continuing stability of the member nations of OPEC.

— Richard Katz

# Two futures for American oil industry

The energy debate sparked in this country by the Iranian oil shortage hoax has brought to the fore the question of how the United States will provide for its future energy needs and what the future will bring for the American-owned oil multinationals — the five U.S. “Sisters” and independents alike.

The problems confronting the future of the U.S. oil industry and the oil rig construction, oil infrastructure and related industries, are both political and economic. On the political side, moves by Sen. Frank Church’s (D-Id.) Senate Foreign Relations Committee to set up an independent marketing board that would bypass the oil majors, and the serious proposal of oil-producing nations to sign increasing numbers of state-to-state deals, means that the upstream, and part of the downstream, capabilities of the oil majors may be eliminated.

On the economic side, the oil companies are confronted by the possibility that in the medium-term they will run out of oil and gas. Although there are reserves to be found and brought on stream within and outside the U.S. borders and continental shelf, it is an uncontested fact that within 30 to 40 years — and perhaps sooner — most of the world’s hydrocarbon reserves will be depleted.

This two-sided political and economic crunch has placed the American-owned oil and related companies — and their future — at a crossroad. Two pathways from this crisis have already been marked.

The first was presented in a report produced in fall, 1978 by the London-centered Royal Institute of International Affairs (RIIA), which argues that the exhaustion of oil and gas reserves combined with the tendency of oil producing countries to nationalize their oil supplies means U.S. oil companies should seek profits downstream and, most importantly, in diversification.

The innocuous sounding RIIA proposal, conduited into the U.S. by oil analyst J. Walter Levy of the Massachusetts Institute of Technology, contains a devastating hidden implication, which is that oil companies should seek their future through decontrol of domestic U.S. oil prices, huge oil price mark-ups off the current Iranian “oil shortage” hoax, and through largely speculative investments to realize large short-term profits.

The RIIA proposal is not in accord with the interests of the oil companies in the middle-term, nor does it offer oil companies a perspective if they hope to remain in the business of energy. The effects of this proposal’s implementation would also be to raise world energy costs, which would trigger world recession.

The second path, long favored by Japan and also

proposed last fall by U.S. Labor Party Chairman and 1980 presidential candidate Lyndon H. LaRouche would provide these oil companies with a future in the energy field while helping them withstand the exhaustion of hydrocarbon supplies.

The LaRouche proposal advises oil companies to diversify into large energy and trading-type company producing giants, much like the huge trading companies in Japan. This would preserve the high-technology and skilled workforce these companies are based on. The new functions of these companies would be to capitalize their profits into the capability to export large nuclear and nuclear-centered industrial packages called nuplexes to all parts of the globe.

This is a multitrillion dollar proposition, projecting well into the 21st century.

Now that the “oil shortage” hoax has hit and re-initiated the national energy debate, we reprint here excerpts of the original LaRouche proposal, entitled, “The Nuplex Approach and U.S. Vital Interests.”

## **The Grand Design for world development**

... We are approaching the end of the petroleum age. Although the magnitude of proven reserves is limited chiefly by the effort to discover and prove new, massive reserves, petroleum will have a diminishing relative importance during the closing decade of this century and the first decade of the next. So, from a corporate standpoint, major petroleum multinationals must shift on balance, into appropriate new fields of primary activity during the quarter century ahead.

The new field of energy production that will take over dominance during the remainder of this century is nuclear energy. We are now passing out of the prebreeder-only phase of nuclear fission-energy generation and must emphasize breeder programs into the 1990s. During the 1980s, fusion energy will begin to come on line in a pilot form (at least). By the end of the 1990s, a shifting composition of ordinary nuclear fission, fission breeder, fission-fusion and fusion energy will be the principal source of new energy supplies into the world’s electrical grid-systems, and waste heat from nuclear production will be a major source of energy for industrial process applications, desalination and related uses in the vicinity of nuclear energy sites.

## **The nuplex approach**

The most efficient approach to the use of nuclear energy in the developing sector generally is the creation of nuplexes.

A nuplex is a new agroindustrial city built around

paired nuclear energy plants, each in the 0.5 gigawatt to 1.5 gigawatt range (by present standards). To economize on distribution costs, and to exploit the waste heat produced, industrial consumers of output will huddle around the plants, creating a new sort of "clean" industrial (and employment) center. With the growing importance of the "clean water" problem and with the opportunity to replicate California's Imperial Valley in many parts of the world, desalination and other water purification exploiting waste heat will make nuplexes key in meeting agricultural population's clean water requirements.

A nuplex also has other natural features. Nuplexes can be established during a four-to-six-year construction period during which period many engineering and other skills are employed on the site. In a developing nation (especially) construction phases are a blend of employed foreign specialists and indigenous employees. The construction period is a period of education and other training of a segment of the indigenous labor force. On-the-job training is not adequate. On-the-site training including schools for technicians, workers and their families' cultural programs, and so forth is

indispensable.

...In the main, we have the proven technology to launch such projects. Looking for the moment solely at U.S. capabilities, our electrical utility industry, the major corporations which supply the utility industry, the oil multinationals and firms specializing in large-scale construction have the capability to create an integrated package mobilizing their vendors as part of the package.

Looking more broadly, our Japanese allies are masters of the integrated approach, and should be our partners throughout the Pacific and Indian Ocean regions most emphatically. French, West German, and Italian high-technology and construction industries have similar capabilities, especially when their capacities are integrated with U.S. potentials. The Soviet Union's Siberian development and related efforts have produced breakthroughs that make them the world's best for certain specific phases of a cooperative division-of-labor in nuplex creation in the developing sector.

Key petroleum multinationals have already developed their pilot capabilities for such diversification....

-Richard Freeman

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# The theory behind Venezuela's

Part 2 of an exclusive interview with Dr. Gumersindo Rodriguez

*When newly elected Venezuelan President Luis Herrera Campins delivered his inaugural address on March 12, he announced his intention of halting Venezuela's ambitious drive toward full industrialization. "Mine," he said, "will be a government of sobriety, austerity and work." His*

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## **EXCLUSIVE INTERVIEW**

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*plan is to "reduce the balance of payments deficit, renegotiate the public debt, and instill discipline in public spending."*

*Does this mean the end of former President Carlos Andres Perez's development strategy?*

*Not without a fight. Not only does the Herrera Administration have to stop the ideas of the Perez government, as exemplified by the Fifth Plan of the Nation, but they will have to stop its realization — a functional industrialization process which has already spun off an 11 percent industrial growth rate, a doubling of aluminum production in the last two years, the generation of a million new jobs since 1974, and agricultural growth rates of 5 percent per annum over the last five years.*

*In short, Venezuela's Fifth Plan, the guiding policy of the Perez Administration, is no longer just a project or an intention, it is a reality today. And it is rapidly becoming the model for the Third World generally.*

*That's how our Latin American desk chief Dennis Small summed up his recent trip to Venezuela. For the Herrera government to stop the Fifth Plan, a very serious showdown will be necessary — one which Herrera and his international sponsors are already planning. An evening of conversation with Dr. Gumersindo Rodriguez, author of the Fifth Plan while Minister of Planning under Perez, served to fully confirm this perception.*

*Last week, Executive Intelligence Review presented Mr. Small's report on Perez's legacy in Venezuela and Part 1 of his exclusive interview with Dr. Gumersindo Rodriguez. The author of the Fifth Plan talked frankly*

*about the current dollar crisis, how oil can be used to bring highly capital-intensive production to Venezuela — and the Third World — and the benefits to be accrued by the advanced sector in such technology transfer deals, the future necessity of nuclear as the energy to fuel industrialization, the question of debt and credit, and the European Monetary System as an alternative financing source to the World Bank and the International Monetary Fund. Dr. Gumersindo Rodriguez then turned to the Fifth Plan and its enormous success. We pick up the thread of his conversation with Mr. Small as he concludes his description of the plan in terms of its basic objectives and the means by which these objectives are to be achieved.*

## **Development or dark ages**

The ECLA [Economic Commission for Latin America — ed.] model was saying that the capacity for import substitution of final products had been exhausted as the motor of growth. We showed that by expanding the internal market through domestic production of inputs using highly capital-intensive technologies, we generated an additional internal demand which permitted us to also increase the market demand for these durable goods. Thus, although import substitution of final products was reaching its limits, that was not the case for import substitution for the intermediate goods and the capital with which those final products are produced.

We said, we're going to produce basic goods, intermediate goods, and capital goods in Venezuela. We created a great demand which kept increasing the demand for durable goods. Now, however, the inputs are made here. This means that you keep increasing the demand for durable goods by producing the basic inputs in Venezuela. You have a continuous demand, an ever-increasing demand for these same goods, which creates employment, improves family income, etc.

What happens? In this process of increasing production of these goods, of their internal processing, you have demand for additional infrastructure. For example, to use the stoves, refrigerators, televisions, you have

# development plan

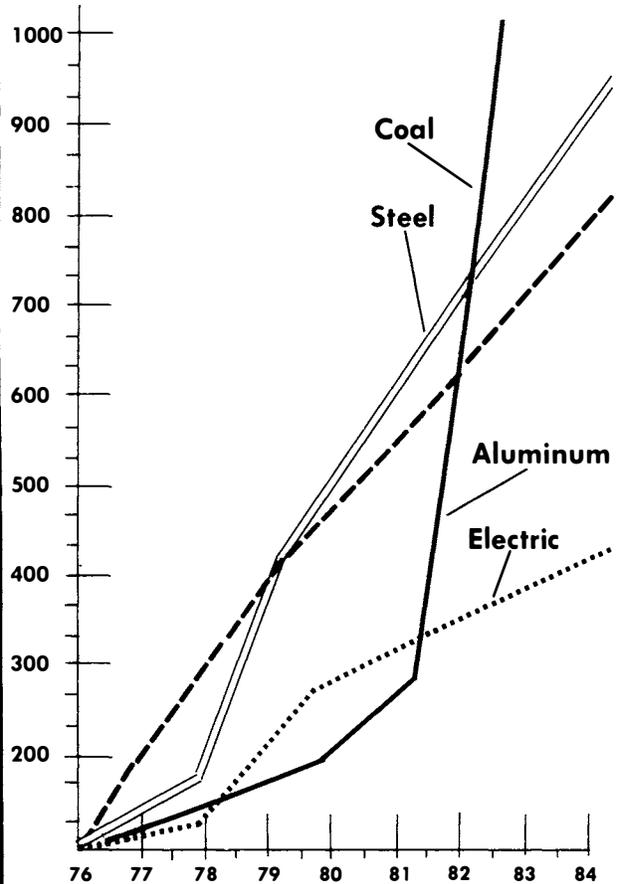
to generate electrical energy. You have to have an electrification plan consistent with the expansion of the demand of these consumer goods, consistent with the expansion of the industries which make them and their components. You're going to have durable objects of aluminum; but aluminum production needs high doses of electricity. Thus, this plan not only calls for the production of steel and aluminum, but also makes the generation of electricity necessary.

How are you going to generate electricity without using petroleum, except by constructing capital goods for hydroelectric and coal-fired generation? But once you carry out this process, since the natural resources are in different regions, you have to link the factory, the centers of production, the centers of consumption, and the centers of production of basic inputs. You thus have to improve the transport grid so that you shift from road to rail transport. Highway transport used to be acceptable for us because there wasn't heavy material to carry. Now, for example, you have to bring steel from Guayana [the eastern region of Venezuela, not the republic of Guyana — ed.] to the center of the republic. Thus, a rail system linking the centers of heavy industry to the centers where these inputs are processed is fully justified.

But as you create great industrial centers, you naturally run up against a very serious problem, which is the concentration of population around the industrial centers. Your rate of urbanization increases. People leave their farms, their homes in the interior of the country, in the rural areas, and need new housing near the industrial centers. So you have to plan basic housing development associated with the industrialization process. For this you have to speed up production of steel beams and rods needed for housing construction, and then rev up cement production in the country. Then you have to plan the production of basic inputs for housing.

But, seeing that in the first stage you don't have sufficient cement capacity, for example, and you have to import capital goods, you create port congestion which can't be solved just through logistical planning. You've

**Venezuela's Fifth Plan  
Production Targets**  
1976=100



Source: Various published plans by government agencies

Although nominally a five-year program, the Fifth Plan "locks" Venezuela into a commitment to certain heavy industry projects extending into the 1980s and 1990s, as Dr. Rodriguez explains.

got to build ports, port infrastructure, to be able to bring in these goods, and later, when imports have returned to normal levels, for the exports of the future.

The National Plan, thus conceived, is nothing more than a basic plan of structural investments, of investments in sectors for structural transformations of the economy, which the nation cannot avoid, because we have the following options: We could hold back the consumption levels of the population, stagnate, go back 20 years, and suppress necessity. That is, reach a kind of economic dark ages. We could do that perfectly well. But in a democratic society, the population will not accept it.

Dr. Perez Alfonzo maintains that we should not make large basic investments because they are a risk for the country. He underestimates our capacity of learning to manage these basic complexes. Very well then, if we don't make these basic investments and we accept the

standard of consumption of consumer durables which is satisfactory to the country, we would have to export more oil, until the oil runs out on us. And, in reality, when it runs out on us, we won't have anything else to export and the complete collapse of the country would ensue. Therefore, there is a contradiction in the conservationist thesis of Perez Alfonzo. He accepts the current standard of consumption. He knows he is not able to change it. He was one of those who introduced that standard of consumption, since he was one of the leaders of Venezuelan industrialization.

What we are saying is that once we accept the consequences of that modern standard of consumption, if we don't make basic investments, then the conservationist thesis of Perez Alfonzo in oil matters must be completely discarded, and we are forced to exhaust all of the oil to pay for the basic inputs we'd have to import for 10 or 15 years.

### **The Fifth Plan is irreversible**

The government-elect [of Luis Herrera Campins, inaugurated March 12 — ed.] can do anything it wants with the National Plan. They can deprive it of its name, so that it isn't called the Fifth National Plan, or even the National Plan. They can even try to cut it down; but they can't cut it down because fortunately we financed that plan in advance. We contracted foreign financial arrangements for every one of the projects. Why did we finance the plan in advance? Because we wanted to make downpayments in advance and fix the prices for the machinery and equipment that we will acquire. The corresponding contracts are already signed, the investments are well underway, and they don't depend on whether Venezuela does or doesn't export oil.

Now we're going to pay the international financiers in devalued dollars — the bulk of the loans were made in dollars — to purchase equipment in Germany, Japan, etc. Basically, we have moved from the United States to Europe in terms of where we acquire our equipment. Now, we will pay with devalued dollars, while oil has been upvalued. It's exactly as if we had bought future oil at spot prices, and are now selling it to pay those who lent us the money to buy it in the first place. That was exactly the operation we pulled off.

I remember an article from the extremely conservative magazine, *International Currency Review*. I cited that article in one of my congressional speeches at the end of 1977. It said that we had done the worst possible thing, which was to save our oil (through which we were contributing to the OPEC program of reducing or stabilizing oil production), putting ourselves in debt, and paying the United States with revalued oil in devalued dollars. They actually said this in a year-end edition; I think it was the October or November issue of *International Currency Review*.

What I'm saying is that even though the government-elect would like to make cutbacks [in the Fifth Plan — ed.] they would have to renegotiate the contracts and pay the financiers more than would be saved by the cutbacks. They can't do it. It's irreversible from the financial standpoint. We did it this way knowing full well that Venezuelan democracy would have these ups and downs which we wouldn't be able to control. This is reality. We can't control what's to come, but at least we can control the decisions made during our Administration.

If they try to redefine the production schedules for the inputs for these basic industries or the investment programs for these basic industries, the following would happen. Since they can't change the standard of consumption, because democratic society won't permit it — unless, of course, they want to establish a dictatorship to apply extreme controls over consumption — the standard of consumption will continue as is. The deficits in the balance of payments due to imports of these inputs will appear again — deficits for electrification, for transportation — and sooner or later the Fifth National Plan would be reestablished. It's *irreversible*, because it is based on a very realistic idea.

### **Educational leadership**

Of course, our National Plan does have certain consequences. It creates disequilibrium in the rest of the economy, in the rest of society, which is the logistical challenge we have to take on.

I called on Dr. Furtado, a leftist Brazilian economist and a very intelligent man, for his opinions on our development planning. I met with this most extraordinary economist and he told me: "Your planning is excellent. Through this planning you will be able to enjoy the luxury of resolving, in a short time, what other countries could not do in decades. Your problems will be essentially logistical."

We're dealing with these logistical problems. Venezuela is a country that has learned by doing. We were told: Don't go ahead with the National Plan, there aren't enough human resources. We answered: Human resources are formed in the process of development. I prefer the inefficiency of steel plants due to a lack of human resources, and I prefer to see them losing money for a few years and functioning as industrial universities for our heavy industry. Because if I see them as universities, they are a lot cheaper than constructing new universities for training students in industrial techniques. And if we don't give them [the students] industrial assistance for their employment, there will be a brain drain, they'll go to the United States, which is what's happening in Colombia.

Colombia has been training a part of its youth for development programs, but because they haven't had

any audacious development programs, these guys leave for the United States. So what it has really become is a manufacture center of human capital goods for free export to the United States.

Our problem is the exact opposite because we are a center of importation of human capital from other countries which have well-established human capital factories.

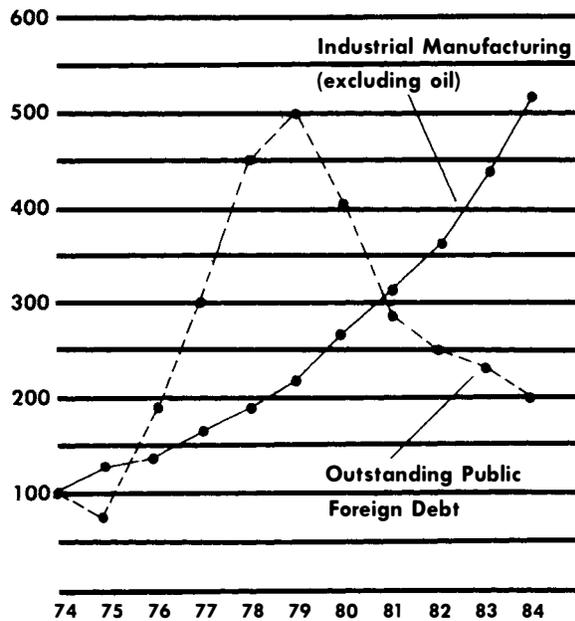
At the head of Cordiplan [National Planning Agency], I established the Ayacucho scholarship program for technical training. As soon as we started planning we established the Ayacucho program. We have sent thousands of students out of the country. In these other countries, capital investments were made in their universities, in infrastructure, in language schools, teachers colleges, etc. It has been demonstrated that students are more efficient in foreign countries than in their own Venezuelan universities and this is natural. It's proven that the immigrants, because of the challenge of the country where they go, take much more responsibility than they would in Venezuela for the security of our newly created wealth.

Venezuelan universities are extremely inefficient. Out of 100 people who enter the university, 20 or 30 graduate. On the other hand, of those we send to foreign universities through the Ayacucho program, 90 out of 100 graduate. So this has been a way of transferring capital into our country. Rather than spending more in capital investments in our own universities for it to be misspent due to the nature of our development, we've taken advantage of the entire human capital productive structure, the manufacture of human capital — which is what foreign scientific and academic centers are — to incorporate this new manpower coming back to our country into our new industrial process.

We had two objectives in Cordiplan which I designed into this program. You can't transform a society technologically without supplying the human input. But that isn't the fundamental problem. The primary problem is that once you have technologically transformed a society, it requires a new kind of leadership. One of the serious problems for a country like ours — and this will be the challenge of the future — is that there must be political planning, a much more complex human planning, once the National Plan has produced its results.

What happens is that you create a highly complex technological structure, and the country's political leadership, the leadership that is being generated, doesn't provide adequate levels of technical direction to manage this complex economy which is highly concentrated in the hands of the State. We have a democratic process and — due to social mobility and the basically democratic nature of our parties and the power blocs in Venezuela — people come to power from the lowest layers of the population. But they lack the development

### How the Fifth Plan pays for itself



The cost of financing Venezuela's development program has caused a temporary trade and payments deficit. But as the above chart shows, the funneling of Venezuela's debt into heavy industry will shortly enable the economy to recover the plan's financing costs. The Sidor program in the Guayana region alone will save almost \$5 billion in steel imports during the 1981-85 period.

necessary to govern. Thus, power in the hands of the people becomes a fiction. So sooner or later they become dependent on organized business, either national or the private multinationals, who have educated people with other concepts of how to run society, and you've failed to create a group of technicians, a class of technicians to run the state.

What have we done with the Ayacucho program? The process of student selection is based on three factors.

First consideration: The students must come from the poorest layers of the population; and of the poor, they should be those with the highest intellectual capabilities. How do you determine who are the poorest? Where did they go to school. You look at San Ignacio School in Caracas, which is generally where the upper middle class and the rich go, and you can assume those students are not poor. You can't ask people if they're poor or not, because they are going to tell you that they are, because they want the scholarship. You select the poor school, the rural school, the urban school in the poorest neighborhoods.

Secondly, the student must have been very good in the discipline that he's going to study. Throughout primary and secondary school he must have done well in subjects related to his discipline. If he's going to study engineering, he must have done well in physics, chemistry, and math.

Third, he has to be from the interior of the country, because there is a correlation between the interior and low income levels. Therefore, almost 80 percent of the Ayacucho program students are from the lower classes of the population.

What is sought with this? The creation of a highly qualified popular leadership to manage the most complex realities created by the process of industrializing the country. That is, the planning of human resources of the Ayacucho program satisfies not only technical considerations, in terms of fulfilling the human resource needs to feed the most complex industrial processes, but it is also, to a certain extent, a political planning for the future which will place the leadership of the complex technical processes of Venezuelan state leadership of the public and private economy, in the hands of a popular-based leadership, trained in the best centers of this country and abroad. We are creating an elite with popular origins for the most complex technological processes.

## Why industrialization?

*Q: On this question of manpower training, the Fifth National Plan model of "industry that industrializes," or investment in the intensive use of capital goods, is commonly criticized in the following two ways. On the one hand, it is said that Third World countries can't and should not concentrate on industry, because one must begin with agriculture first. Secondly, it is said that the intensive use of capital goods doesn't solve the basic problem of the Third World, which is unemployment. Therefore, labor-intensive projects are required. Generally, these two criticisms converge on a development theory which is labor-intensive agriculture and agricultural production for export, the proceeds of which, go to pay the debt. How would you respond to these two criticisms?*

**A:** I've thought a lot about this problem. I would accept discussing these things for densely populated countries such as India, China, or Pakistan. I would accept such a discussion, but that's not to say that I would agree that the thesis is correct; only that I would accept to discuss it.

In a country with the great natural resources of Venezuela ... the Venezuelan population, to a certain extent, is suboptimal relative to the available productive potential.

For example, the question of birth control. It sometimes seems to me that you need selective demographic policies. In groups and regions where the population can grow — because there are resources to sustain such growth, or where families can grow under

the best biological and intellectual conditions — there is no problem with a demographic policy of expansion, for those social classes and in these regions. Now, in marginal sectors, in areas where there's no ability to sustain it, I believe population growth is highly risky. Therefore, you can have a globally growing or relatively stabilized population, without disturbing the growth in supply of the necessary human resources. I would say that in the middle class, four, five or six children are possible, because they have the wherewithal to feed them; in the wealthier areas where that is possible, there wouldn't be any problem. But, in the first stages, there should be a lot of control over demographic growth in the poorest sectors, *while* they are being lifted from marginality and incorporated into wealthier layers where the population can grow.

I refer to this because of the problem of manpower. The employment problem and the agriculture problem is the following. In the first place, it is true that it is not possible to employ the population in the industrial sector if you don't have the agricultural base to feed them or if you don't have available exports to exchange for agricultural products to feed the population that works in the industrial sector. Therefore, we need agriculture. But because agricultural transformation is not a short-term proposition, since it is a question of investment in infrastructure and in human resources, you can't expect immediate results. That is they are deferred to a certain extent. You have to import agricultural products to make up for the deficit resulting from the increased demand and, in that way, feed the populations that work in the industrial sector.

I think it is really excessively simplistic to propose that emphasis should be placed on agriculture and not on basic industries. It is impossible to transform the agriculture of a country without electrification, which is a basic industry; without improving transport systems, which is a basic infrastructural element; without improving water systems, which is a basic infrastructural element; without improving steel production, which is basic for making tractors; without investing in the petrochemical industry, which is basic for fertilizer production.

It is preferable to temporarily feed the population with imported agricultural products, available today at rather favorable prices on the world market, in order to push basic infrastructure forward.

If I had the choice between only agriculture or only basic industry, everything for agriculture or everything for basic industry, I would say: Well, people can eat imports while they get on with building the basic infrastructure. Once I've got the electricity which enables me to mechanize agriculture, once I've invested in ammonia, urea, and fertilizer plants to be able to fertilize agriculture, once I've got the transport grid in place to ship the products, once I've got steel production for the tractor plants, well, I think then that my decision to

transform agriculture will be much easier. What would be more difficult is if I were to put all the resources into agriculture. How would I do it? I'd have to import tractors, I wouldn't have electricity and wouldn't have fertilizer, or would have to import it. And there I'd have one hell of a problem.

So, it is preferable to start with basic industrialization and then move toward agriculture, while using the international market to supply any deficits during the first stage. If I had to choose, I would more easily transform agriculture starting with industrialization, since it is more difficult under current conditions to industrialize starting with agriculture.

The United States industrialized beginning with agriculture. Or rather, it transformed its industrialization beginning with agriculture, since it had an export agriculture of cotton and other things which then had an extremely broad market. It was a much slower process. But today's conditions are different. The agriculture we need today has to be a highly mechanized, fertilizer-based agriculture. This requires a domestic capital goods industry.

In Venezuela, since we have the good fortune of being blessed with enough resources for everything, we can simultaneously pursue the basic industrialization process — which we are doing — and the process of building an agricultural infrastructure. Fortunately, the yields in the short term have been very good. But, to the degree that national industry supports agriculture, we will have in 15 to 20 years an agriculture supplied by the capital goods of basic industry.

Even more, if we had emphasized agriculture, rather than providing employment for the population in the urban centers through basic industrialization, we would not have created the income needed for the consumption of the agricultural product. Thus, we could have become just what the Russians were in the 19th century, with the industrialization process, especially that of Count Witte. That was an agriculture to export wheat, although the Russians were dying of hunger; and obtaining through wheat exports all the rolling stock for the Transiberian and Transcaucasian railroads. What happened in the end was that the peasants were so exploited that when Russia came to industrialize under the Communist regime, it was faced with a rural population bestialized by hunger and ignorance. To this day, Soviet agriculture has not really been able to recuperate from that human burden.

I think that the question here is an *industry that industrializes*. Because the real problem is the industrialization of agriculture. You could never think of making agriculture into the motor of industry. On the other hand, you *can* make industry the motor of agriculture.

Historically, agriculture was the source of capital accumulation through the exploitation of the agricultural sector, charging the terms of trade against it, selling in-

dustrial products high and buying agricultural products cheap. This brought about a kind of surplus fund, a social fund or a financing fund, in which industry grew at the expense of agriculture. In these societies, you could dominate the peasants and could expropriate them and do all sorts of things to them. But the problem is that today the peasant has been integrated, he participates in elections and democratic processes. The peasants today are a force and you can't impose on them the same terms of trade as in a backward society. So, you have to get them producing at high levels of productivity, since it is the only conceivable way. You have to change them based on industrialization.

## State dirigism

*Q: A question about the role of the state. The classical theses of the Manchester liberal school since Adam Smith claim that you have to leave everything to "the invisible hand," and that the private enterprise model of free exchange, free enterprise, is the solution to the economy. You are known as someone who believes precisely the opposite, that the role of the state is extremely important in the development process of Third World countries. Could you elaborate on the role of the state?*

*A: I think that the role of the state depends on the way, from the standpoint of economic development, you choose to administer the economic surplus, that is, the savings fund of a society. Its fundamental process is of accumulation in the strategic sectors. If you leave the accumulation process in the hands of the private sector, of the various operators in the market, these are operators with contradictory viewpoints. They look out for themselves. Rarely does this coincide with what is good for society as a whole. There is no doubt of this. These decisions of savings and investment, in the hands of the various operators, would not permit the concentration of resources in the strategic areas.*

Look at the difference between the Colombian and Venezuelan economies. In a talk I gave to the military officers of the central garrisons of Venezuela, I defined the problem. They were very worried about the Colombia-Venezuela border conflict, a potential conflict which exercises a strong underground influence on Venezuelan politics which is not often brought out into the open. I told them the following: The difference between Venezuela and Colombia is that in Colombia, development is not controlled by the state to the same degree it is in Venezuela. The reason is that the majority of the Colombian income from economic surplus — and especially the surplus in the form of foreign exchange — is administered by private operators. The private operator decides where these resources go, and the state can only offer inducements through indirect mechanisms.

For a number of historical reasons, in Venezuela, the state is the one which concentrates the surplus. Spanish

colonial legislation made the state the owner of underground wealth and, as the owner of the subsoil, it is the recipient of the major wealth, even when it is extracted by multinational enterprises. Today, the state is owner of that wealth and controls that economic surplus. The economic surplus is highly centralized under state control, as it would be in a socialist or nonsocialist statized economy.

The question is: How is it directed? I believe the state must outline two criteria. First, the sectors which the state considers strategic and which, because of their scale and their concentrated generation of capital accumulation, have to be in the hands of the state so that the state monopolizes the greater part of the surplus accumulation, the social surplus, the social fund for accumulation. The state has a greater capacity for overview than the different private operators individually. Thus, during a long period, the state has to take charge of the basic industries: oil, iron, steel, electricity, etc. Because that is where the greatest investable value-added is going to be created.

The problem then arises: How are you going to use the surplus which you are going to accumulate in the hands of the state? That is where the strategy of the state comes in, in the case of Venezuela. It's not that the state wants to absorb all sectors of the economy, but rather to direct things; the private sector is more efficient in this area, and so on. For example, supplying goods and services to the population, gasoline distribution networks, food in supermarkets, providing educational services, repair shops, small and medium industries, etc. The state can't absorb them for the fundamental reason that it would have to commit to them the best of its human resources which would distract them from their strategic function — to be concentrated in the key strategic sectors of production.

In the case of service industries, due to the multitude of components of the private sector, whatever antisocial tendencies some might have are compensated by the social tendencies of others. There can be a business which profits at the expense of society, but there are other private businesses whose profits don't reflect all the benefits they give society.

I would, therefore, modify the neoclassical scheme. The numerous small businesses, some with private profits which underestimate the social benefit of producing them and others with private profits which overstate their contribution to society, can operate perfectly well under the global macroeconomic direction of the state. The state can provide general norms for the private sector.

What are we doing? What we want is for the private sector — which develops on the basis of the surplus which the state transfers to them in the form of credits, fiscal incentives, exemptions, and other support — to be sufficiently democratic and self-compensating. For ex-

ample, if a strong industrial group forms in light industry and there are tendencies toward concentration of capitalism, we would stimulate consumers to form cooperatives and worker-managed enterprises which would act, in Galbraith's terminology, as "countervailing powers" and bring the big industrial groups under some degree of control. Then we would create yet another option for these same strong industrial groups — now monopolistic or oligopolistic — to compensate a little for this newly established power.

We will thus be creating a more balanced, more democratic, capitalist structure. We also think that the working class, through the investment of its own savings, could participate in stock ownership of their businesses and other such mechanisms, so that all the value-added created in the capitalist sector of the economy is not simply consumed.

What happens? What is our philosophy, as the state, for the capitalist sector of the economy? It is the non-strategic, nonfundamental, sector where economic surpluses are not concentrated. In this case, the state posits the principle that the private sector must internalize as much as it can some social costs of development. For example, the private sector has to finance part of the formation of human resources in the society. The private sector has to absorb part of the cost of feeding the population in cafeterias, in public eating places around their companies.

The private sector can take care of a number of needs. To the degree that the private sector takes care of such social needs — for example, forming its own human resources through joint programs with the government, such as industrial apprenticeships and financing of INCE [National Institute for Educational Cooperation — ed.], running social development programs, contributing improvements to the communities it works in — the less the tax burden on it will have to be. Because if the private sector is really producing for society an equivalent of what the state will provide for it in terms of social services, then there is no reason for the state to collect these taxes to then spend them on providing the service. In Venezuela, the income base of the state, of the state investment funds, is not going to come from the tax system. State funds come primarily from the business profits of the state in the strategic sectors.

If you have a basic business sector which has high profit rates because it is highly capital-intensive, you can be much more certain about the accumulation process. Also, people consider the profits which the state makes as entrepreneur to be legitimate, but they don't view the profits made by the state through the taxation system as socially legitimate. Therefore, we prefer to develop a highly productive state sector, so that we don't have to base ourselves mainly on fiscal expedients.

# AFL-CIO execs back Kennedy's death movement

The AFL-CIO Executive Board is now giving crucial support to policies which will rapidly destroy the American high-technology health care system and replace it with "alternatives" to hospital care — including organized murder by means of the British-inspired hospice movement.

Buried among the resolutions passed at the recent Executive Board meeting in Florida, along with the usual expansive pieces on the Kennedy-backed "Hospital Care for All Americans" legislation, is a policy statement entitled "Alternatives to Health Care."

The AFL-CIO stands committed to push as hard as it can for the full Kennedy health package, but, by simply taking Washington's pulse, one finds that the package will likely be tied in various knots in Congress. The resolution finds the cost of advanced medical care prohibitive and often unnecessary." Also, such programs as home health services, surgicenters and hospices are not growing as rapidly as they should, the Executive Board states.

To remedy this, the AFL-CIO proposes some sweeping changes in Medicare and Medicaid disbursement policies that would foster nonhospital care — a cornerstone of the entire Kennedy health package. But more importantly, the AFL-CIO tells its member unions to negotiate this "de-hospitalization" program into their contracts by providing union funding for hospice, surgicenters, and so forth.

The AFL-CIO leadership would have a hard time selling its membership on the idea that sick unionists or their families should forgo expensive hospital treatment — especially when it comes to saving a life. It is even harder to imagine most members buying the arguments about "death with dignity" offered by the hospice movement. No wonder, then, that the AFL-CIO has failed to report the contents of this resolution to its members.

The key proposal is the support for hospice treatment — an open statement of intent by the aged members of the AFL-CIO Executive Board to seek sanctioned triage for seriously ill union members. It received the imprimatur of octagenarian George Meany, the AFL-CIO President, and sailed through.

These policies are most strongly supported by Jewish Labor Committee networks inside the Federation,

which include individuals such as Jerry Wurf of AFSCME and Murray Finley of the Clothing Workers.

These individuals, along with William Winpisinger of the International Association of Machinists are also the strongest backers on the Executive Board of a 1980 Sen. Edward Kennedy presidential bid.

Lloyd McBride of the Steelworkers and similar technology growth-oriented union leaders apparently said nothing as the board rubber-stamped the resolution.

—L. Wolfe

## Prolonging life is expensive

*The AFL-CIO provided a fact sheet with their resolution. We print below their definition of hospice.*

The most typical response to terminal illness has been hospitalization where efforts to prolong life have traditionally been made through the use of highly sophisticated forms of medical technology. Such heroic measures cost a great deal of money and do not relieve the unique emotional problems or the often excruciating pain of the terminally ill. An alternative to the intensive care unit of a hospital is hospice care.

Hospice care is a specialized, organized program stressing the relief of pain while providing supportive care for both the patient and family. Hospice care recognizes that a dying patient experiences not only physical pain, but psychological, social, spiritual and financial worries as well.

Therefore, every effort is made to encourage and support such patients to live their remaining days as fully and normally as possible. While supporting the patients and their families to come to terms with death. This support can be provided in either a hospice, a specialized facility, or in the home.

# Congressional Calendar

## **D**epartment of Natural Resources

In April the Carter Administration will send to Congress a proposal for a Department of Natural Resources, a proposal which will reorganize the various executive agencies responsible for natural resources into a centralized body.

The Department will include the Interior Department, and will expropriate the huge Department of Forestry from the Agriculture Department and the National Oceanographic and Atmospheric Administration from the Commerce Department. The new department will not mean a better planning agency for development of America's resources. What is intended is an environmentalist power grab over large tracts of federal land which are now statutorily available for certain specified types of commercial development. It will also consolidate environmentalist control over off-shore oil and numerous other functions.

What the new Department's activities will look like has been signaled by Administration policy on the issue of the Alaska Lands Legislation, one of the major controversies for environmentalists. Interior Secretary Cecil Andrus, who would head the new Natural Resources Department, has repeatedly urged passage of the Alaska Lands bill to prevent the development of Alaska's vast resource potential, and to instead maintain the area as a wilderness park. Andrus has a well-known history of being a major backer of environmentalist policies.

However, the Administration's well-laid plans could hit a snag.

There is growing opposition to the Natural Resources Department on Capitol Hill from the opponents of the Alaska Lands bill for precisely this reason according to several aides.

The new department will be enacted into law 60 days after it is introduced into Congress if the Congress does not veto it.

## **M**iller tries monetary control

Federal Reserve Chairman G. William Miller and Rep. Henry Reuss (D-Wis), chairman of the House Banking and Currency committee, made an all out effort to push through HR-7, the so-called Fed membership bill through the committee, only a week after Reuss had pronounced it dead.

HR-7 would require all banks to keep reserves on demand deposits in excess of \$40 million and savings deposits in excess of \$50 million, opening the way, in the view of knowledgeable banking and regulatory officials, for the Fed to disrupt industrial capital flows and promote speculative "offshore" banking practices generally.

A quick trip by Miller to the New Orleans conference held by the Independent Bankers Association of America, where the Fed chief secured the support of the IBAA for the bill, led to the jubilant March 16 statement by Reuss, "HR-7 has come back from the dead." According to one spokesman for the banking industry, "the Fed pursued the old tactic of divide and conquer. Since almost all the IBAA banks have total deposits of less than \$100 million, they would be exempt

from the bill." At the same time Miller is offering these bankers a gravy train of Fed services to get them to give up their correspondent relationship with large clearing banks. The American Bankers Association and Conference of State Bank Supervisors both oppose HR-7.

Thus, under the rubric of a more centralized "stronger Fed," HR-7 would clear the way for decentralization of U.S. banking under a Congress-Fed-IBAA alliance which could "philosophically change" the basis of U.S. credit allocation to further deemphasize credit for industrial production, as one banker put it.

As we go to press, it appears that Miller and Reuss have lost the final round in the battle for HR-7: the bill was voted down by the full Banking Committee on March 21, by a vote of 21-20. Whether or not Reuss tries again, Senate Banking Committee chief William Proxmire (D-Wis) plans March 26 hearings on a nearly identical bill, S-85.

## **S**tevenson subcommittee issues U.S. export policy

The Senate International Finance subcommittee, chaired by Senator Adlai Stevenson of Illinois, has issued a report entitled "U.S. Export Policy" which summarizes 11 days of testimony by business and trade experts before the subcommittee in early March and presents recommendations of the subcommittee based on this testimony.

One of the steps recommended is the creation of trade companies exempt from federal antitrust laws which would be responsible for the bulk of U.S. sales abroad. This would allow American businesses

to consolidate bids for foreign investment and exports. (Such consolidation is long-standing practice in such high exporting industrial nations as Japan, West Germany and France.) The subcommittee also recommended that the U.S. government provide new tax incentives for industrial research and development in order to make the U.S. competitive with other high-technology exporters. Other steps advocated include establishing a new Department of Trade, improving information on foreign technology, and expanding export financing through the Export-Import Bank.

Most importantly, the subcommittee called for a complete demolition of the myriad trade restrictions and disincentives which have been based on so-called "political criteria" such as human rights or antiproliferation, and which have been applied in a particularly heavy handed fashion by the present Administration. "The impulse to restrict exports to countries whose internal or external policies do not meet U.S. standards...should be resisted..." states the report.

At the hearings themselves, Senator Stevenson lashed out at the Administration both for having a "negative trade policy" and for allowing the National Security Council to exercise a veto over certain trade deals as well as over export licensing, a prerogative it is not legally permitted. "The U.S. share of world markets is going down...most of the wounds are self-inflicted," said Stevenson. "The NSC," he charged, "is bypassing the secretaries of Departments and dictating specific export decisions. It does this

without any accountability to the Congress and the public and it does it without statutory authority since the NSC is only supposed to be an advisory body."

### **New wheat cartel push surfaces**

Senator George McGovern (D-S.D.) and Henry Bellmon (R-Okla.) took to the hustings last week with a plan to set up a wheat cartel among the four major producer nations. The cartel, which would include the U.S., Canada, Australia and Argentina, would control world wheat production and trade.

In addresses to the annual National Farmers Union (NFU) convention in Kansas City, Mo., the Senators proclaimed that higher prices enforced by such a cartel are "imperative in the effort to preserve the family farm."

If the rationale is new, the plan itself is not. Nearly two years ago, Agriculture Secretary Bob Bergland announced the Carter Administration's intention to establish the four-power wheat cartel as a weapon against the Organization of Petroleum Exporting Countries, insisting that it act to enforce an across-the-boards 20 percent reduction in planted wheat acreage. The plan was promptly branded "an idea whose time has gone" by the Chicago Board of Trade, whose president pointed to the relevant historical precedents for such outrageous plans in the trade war policies conducted against the young American Republic by Britain.

The wheat cartel idea was put on the back burner while the Administration was conducting the

International Wheat Agreement talks, hoping to achieve through these negotiations the same end. But with the collapse of these negotiations last week, the Administration and Senators McGovern and Bellmon have in the past week met several times to discuss a four nation agreement on wheat prices and production. These include people not only at the Agriculture Department but the State Department and the "inflation fighters" in the executive.

The plan is to ensure wheat prices of at least \$4 a bushel. According to an aid to Senator Bellmon, this would result in government mandated production cutbacks in acreage, rather than ensuring increased production or an export market for America's farmers.

On Feb. 6 Senator Bellmon introduced legislation, now in the Agriculture committee, calling on the Administration to negotiate such a price setting agreement with the three other major wheat exporters. The legislation is seen as a spur to force government action and will only move out of committee if the administration does not act. Previously, Canadian officials met with their U.S. counterparts expressing support for the plan and Assistant Secretary of Agriculture Hathaway will shortly go to Australia to discuss it.

—Don Baier

**“We are disappointed with the lack of concrete steps on the part of many of our allies and partners in the way of alleviating our urgent economic problems.”**

***Bülent Ecevit***  
***Prime Minister of Turkey***  
***March 8, 1979***

## Turkey: test case for the European

### In this section

Turkey, as a developing sector nation which has developed political institutions committed to industrial and technological progress, is a key test case of the Third World's ability to develop industrially. Turkey has an ambitious five year development program for basic industry, but it has also faced intense pressure from the International Monetary Fund to abandon that program. Last week, Turkey bowed to the IMF by adopting a stringent austerity program, after European nations, principally West Germany, failed to deliver on promises of emergency aid to tide Turkey over its debt rollover crunch. The Turkish situation has emerged as the first test for the development policy of the European Monetary System nations.

The following report, prepared by Nancy Parsons, examines these elements of the story:

- What will be the impact on Turkey's social and political stability.
- What options are still available to Prime Minister Bülent Ecevit, a strong advocate of Turkish industrialization. Plus, a report on indications that NATO circles may be contemplating a military coup in Turkey.

After almost one year of bucking International Monetary Fund pressure to impose economic austerity, the Turkish government last week finally relented by announcing a “comprehensive economic rescue program” for implementing austerity.

The plan, billed by the Turks as “our own,” is in fact virtually identical to the IMF's proposed austerity program, and constitutes a strategically important, albeit somewhat belated, victory for the IMF. The fact that the Turkish government has still not formally accepted the IMF's proposals is now of little consequence to the IMF, which has nevertheless managed to achieve its aim vis-à-vis Turkey: a comprehensive austerity package, along with a tacit agreement to carry out a major currency devaluation later this year.

In adopting its austerity program, Turkey has not only come up with a plan that feeds directly into the IMF's strategy of subordinating real economic activity to debt collection; it has also bolstered the IMF's position throughout the developing sector as well as in Turkey itself. The reason: at the January Guadeloupe economic summit, Turkey became a major test case of the development approach of the new European Monetary System, the IMF's rival. At that summit, EMS leader Helmut Schmidt, the chancellor of West Germany, responded to Turkish government requests by calling for the creation of a special loan mechanism to enable Turkey to stabilize its beleaguered economy and proceed with its five-year development plan. In a Jan. 9 interview with the West German daily *Süddeutsche Zeitung*, Ecevit responded by praising

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# Monetary System

Schmidt for his efforts to organize international support for Turkey. His statement was a signal to the Europeans that Turkey would welcome rapid integration into the new EMS as a test case for extending the EMS into the developing sector.

But since Guadeloupe, the Europeans have equivocated. At a post-Guadeloupe follow-up meeting in Bonn, it was decided that the OECD, the IMF-tainted advanced sector nations' organization, would provide the best vehicle for pulling together the aid package that Turkey had requested. West Germany reportedly backed the OECD role, viewing it as an alternative to the stated desire of the U.S. to work "in parallel" with the IMF to solve the Turkish crisis.

Dominated by the IMF, the OECD backed the IMF's austerity demands completely. Last month, Ecevit angrily postponed the visit of OECD Secretary General Emile Van Lennep to Turkey, letting it be known that Turkey had "categorically rejected" the OECD's insistence that Ankara implement the IMF's Turkish proposals. "I have no intention," said Ecevit, "of accepting prescriptions that are not compatible with the realities of Turkey. I cannot push our democracy off the precipice, neither for \$50 million in credits, nor for \$100 million, nor for \$1 billion. I cannot throw our democracy into the fire."

This month, while on a visit to Bonn, Turkish Finance Minister Ziya Müezzinoğlu was told by Schmidt that Turkey would have to go through the IMF first before any aid could flow.

Commenting on Europe's passivity in not using the

EMS as an anti-IMF weapon, a high-level Turkish Finance Ministry official expressed "bitter disappointment" over Chancellor Schmidt's position that, until Turkey complies with the stringent austerity demands, no aid will be forthcoming.

Prime Minister Bülent Ecevit has been even more outspoken in his criticism of the West. Earlier this month Ecevit assailed the United States, Great Britain, West Germany and France for demanding "unacceptable conditions" for financial assistance. Ecevit complained about the "dishearteningly slow pace" of the international effort initiated at Guadeloupe to help his country. "We are disappointed," Ecevit told the press, "with the lack of concrete steps on the part of many of our allies and partners in the way of alleviating our urgent economic problems."

Isolated and vulnerable, Turkey finally succumbed to IMF pressure and began making byzantine trade-offs with the Fund. At a meeting two weeks ago in Washington with the Fund, Central Bank and Finance Ministry officials attempted to "soften up the IMF" by telling the Fund that "Turkey has no intention whatsoever to break with the IMF," and every intention to impose austerity — with a devaluation to come later. What in fact was occurring was the softening up of Turkey. Within days of the return of the Turkish officials to Ankara, the austerity plan was announced by the government.

Thus, with no substantial support from the EMS or Europe, the Turks, after a year of fruitless haggling with the IMF, finally acceded to the IMF's demands. Forcing

## Foreign currency intake and expenditures

(\$ thousands)

Intake		
	1978	1977
Central Bank	944,343	910,474
Exports	433,328	499,934
Worker remittances	511,015	410,540
Private banks	1,912,195	1,836,155
Exports	1,440,152	1,264,871
Worker remittances	472,043	571,284
<b>Total</b>	<b>2,856,538</b>	<b>2,746,629</b>
Expenditures		
	1978	1977
Central Bank	1,819,801	3,002,660
Imports	1,394,277	2,474,398
Foreign debt	425,524	528,262
Private banks	1,722,399	966,055
Imports	1,652,308	959,907
Foreign debt	70,091	6,148
<b>Total</b>	<b>3,542,200</b>	<b>3,968,715</b>

Turkey's hand on the matter was the fact that the IMF, with the cooperation of Western banks and governments, had cut off all financial aid flows into Ankara until the IMF's conditions were met.

### The consequences of capitulation

The consequences of Turkey's capitulation to the IMF program will go beyond diplomatic bad feeling between Ankara and Bonn. The Europeans' failure to deliver on the aid package proffered in January has without doubt hurt the EMS's credibility with many developing sector nations who are faced with similar demands from the IMF, and have looked to the EMS as an alternative economic system that will enable them to restructure their obligations so as to be able to proceed with basic industrial development and meet the basic consumer needs of their populations.

In Turkey, the position of Ecevit, a natural ally of the EMS, will be severely tested. Not only is the austerity program unacceptable to most of the Turkish population, but there have been numerous indications that Turkey is targeted for the kinds of ethnic and religious destabilizations that are tearing apart Iran. And there are indications from London, which has extensive interests in the region (including its bases on Cyprus), that Britain would not be disappointed to see Ecevit ousted by a military government (see box), a

development which would hasten the reorganization of the pro-London network of Middle East military alliances.

In Turkey itself, population and industry are headed for an economic wringer.

The austerity program announced by Ankara is sweeping. Oil and gasoline prices were raised a whopping 100 percent, taxes were increased, and cuts were made in government spending. In addition, government subsidies to the "uneconomic" state-controlled industries are being stopped altogether, a move that will not only lead to the rapid demise of Turkey's large state sector (which produces half of Turkey's industrial goods), but will also undermine the basis for transforming Turkey into a modern industrial nation.

The IMF has reportedly extended "grudging acceptance" of the Turkish plan on the condition that Turkey devalue its currency within the next six months. According to the *New York Times*, "Turkish officials have indicated that they found such a delay acceptable." However, Turkish Central Bank governor Ismail Hakki Aydinoglu was somewhat more circumspect. "Until we have completed a restructuring of our economy, and particularly our industry, we will not be able to determine a fair value for the Turkish lira," said Aydinoglu. "No country with an industry working at 50 percent capacity should be forced to devalue."

If Turkey does devalue, it will be another setback for Ecevit. Last month, the Prime Minister was unequivocally opposing devaluation. "The continuing insistence of the IMF for another devaluation is affecting the Turkish economy negatively," he said. "The devaluation precondition has been hanging over Turkey like the sword of Damocles for a long time. The IMF, which has failed to put forth any other proposal, should give up its push for devaluation.... Turkey is definitely not going to carry out another devaluation. The economy cannot tolerate it."

### Debt obligations

For Ecevit, the situation is precarious. Totally cut off from Western credits, the Turkish economy has been fast unraveling. Inflation is more than 70 percent a year, rising at 5 percent or more each month. Industrial output has plummeted 50 percent as a result of cutbacks in imports vital for production. The import cutbacks are themselves a result of the acute foreign currency shortage: Only \$540 million — or 1.5 months worth of imports — sits in Central Bank coffers. This month alone, \$140 million of the currency reserves must be paid out for debt repayments. Added to these problems, more than 20 percent of the industrial labor force is unemployed, exacerbating the widespread social unrest and ongoing violence. Basic commodities are in short supply.

At the root of these problems is Turkey's foreign

debt, which totals upwards of \$13 billion, half of which is short-term. The situation is described as the gravest debt repayment problem in international finance.

The restructuring of Turkey's debt to facilitate repayment is the number one issue between Ankara and the Western bankers, who, bowing to IMF pressure, have refused to extend fresh credit to Turkey until the IMF's austerity terms are met.

Most controversial is Turkey's \$6 billion in short-term debt, whose restructuring has been called "one of the largest such operations in financial history." Broken down, this amount involves \$2.4 billion in convertible lira deposits owed to 220 banks, primarily in the U.S. and Europe, \$1.4 billion in arrears on imports guaranteed by governments belonging to the Organization of Economic Cooperation and Development, \$450 million in Turkish Central Bank debt, and \$1.4 billion in unguaranteed trade arrears to suppliers.

The rescheduling of the \$2.4 billion in convertible lira deposits is the most serious of Turkey's debt difficulties. The convertible lira program was set up in 1975 by Ecevit's predecessor, Süleyman Demirel. Under the program, foreign investors deposited dollars in Turkish banks for 12 to 18 months at extraordinarily high interest rates. Attracted by these rates, money flooded in, and was then conduited into financing the \$4 billion trade deficit rung up between 1975 and 1977. By 1977, reserves had fallen so low that it was impossible to repay the convertible lira deposits, now falling due. The banks refused to refinance the deposits and told the Turks to work out a "stabilization program" with the IMF before asking for help from them.

In April 1978, an agreement with the IMF was signed for the release of \$450 million — plus the IMF's "stamp of approval" — in exchange for a 23 percent devaluation and other austerity measures that the Turkish government had "independently" carried out in March — in a fashion similar to the "independent" austerity measures announced by the government last week. However, as the IMF began presenting demands for continually increasing levels of austerity, the \$450 million tranche was never released. As a result, refinancing negotiations with the banks have faltered, despite a plan put forth by Turkey that would convert the convertible lira loans into seven-year money and provide Ankara with \$400 million in additional funds.

The dilemma for Turkey—and the West—is the following: Even if Turkey does restructure her debts successfully, there remains the problem of providing the fresh funds needed to keep Turkey's economy alive. Without new money, and relying totally on export earnings, nearly half of Turkey's future export earnings will have to go for servicing the rescheduled debt. However, as matters stand now, all of Turkey's export income is being spent on oil imports. In the words of one Finance Ministry official, "our debt payments are all overdue. We are trying to postpone these payments. If we don't

## Turkey's Debt Structure

\$ millions	At 9/29/79	After planned rescheduling
<b>Short-term</b>		
Public sector		
Bankers' credits	458	—
Third-party reimbursement claims	200	—
Dresdner Bank scheme *	292	292
TPAO oil debt to Iraq	322	322
Petrol Ofisi Acceptance credit	150	150
Others	268	268
Private sector		
Acceptance credits	874	874
Arrears to suppliers †	1,600	900
Convertible lira deposits ‡	2,967	560
<b>Total</b>		
<b>Medium and long-term debts §</b>		
Public sector		
International organizations including IMF	1,944	1,995
Bilateral credits		
Participating OECD countries	2,526	3,226
Others	159	159
Euroloans	367	367 ¶
Rescheduled bankers' credits		
Third-party reimbursement claims	—	200
Convertible lira deposits	—	2,407
Loans to be syndicated by banks	—	400
Private sector	281	281
<b>Total medium and long-term</b>	<b>5,277</b>	<b>9,493</b>
<b>Total external debt</b>	<b>12,408</b>	<b>12,859</b>

\* DM deposits by non-resident Turkish workers.

† Excludes up to an estimated 600m of unlicensed imports.

‡ \$560 held by non-resident Turkish citizens or maturing after December 31, 1980, and not being rescheduled.

§ Figures for June 30, 1978.

¶ Excludes undisbursed loan of 125m replacing Petrol Ofisi acceptance credit.

Source: Turkish Central Bank

succeed, Turkey's export income for the next two years at least will be held hostage."

International bankers estimate that what Turkey needs, at minimum, over the next five years is \$10 billion in new credit to keep the economy going. At the Guadeloupe summit \$1 billion was discussed. Observers report that now the rescue effort has been whittled down to an inadequate \$500 million: \$300 million from the IMF under last April's standby agreement, and \$200 million from the OECD. In assessing the situation, a leading banker candidly admitted that the IMF is demanding from the Turks "not just a pound of flesh but the last drop of blood too".

## Britain out to topple Turkish government

*Are the British and United States preparing a coup option to topple the government of Turkish Prime Minister Bülent Ecevit? Ecevit was visited last week by both NATO Supreme Commander Alexander Haig and British chief of staff Sir Neil Cameron, who urged him to bolster Turkey's ties to NATO. But the British press has also been mooting some form of replacement of the Ecevit government — in the context of London and Washington objections to German and French proposals for a solution to Turkey's problems — and in some circles these articles are seen as signaling that a coup option against Ecevit is in place. This appeared in the Feb. 26 Financial Times of London:*

The West Germans and French appear to put considerable store on Mr. Ecevit staying in office. The Americans and British, however, seem less committed, being concerned about his "multilateral foreign policy," even if it is one within NATO. They also look askance at his rhetoric about a "new defence concept" — an unidentified phrase which appears to

give focus to the growing reservations about the West within the Turkish armed forces and bureaucracy, not least because of the recent U.S. arms embargo on Turkey.

The U.S. and the UK thus would not be disturbed if a grand coalition emerged between Mr. Ecevit and his predecessor, the opposition leader, Mr. Suleyman Demirel — even if Mr. Demirel's mismanagement of the economy in the 1960s led to the economic crisis of 1969 and his failure to prevent even more serious profligacy between 1975 and 1977 is largely responsible for the country's present plight.

The U.S. now states publicly that Turkey must comply with the IMF's demands and that there is no such thing as money without strings — a view privately espoused by the British....

But the West Germans go somewhat further. In private their diplomats argue that a major mistake has been made in presenting the aid programme in terms which make it seem that the Turkish Government will have to capitulate before aid can flow.

Included in the IMF's demands — many of which have now been satisfied by the Turkish government's newly installed austerity program — are a hefty 40 percent devaluation, increased taxation of the population, and a sharp cut in public spending. The IMF is also out to cut state subsidies to state-controlled economic enterprises. Another target is Turkey's latest five-year plan, which, much to the ire of the zero-growth-oriented IMF, foresees a national growth rate of 8 percent. The IMF wants to trim this goal down to 4 or 5 percent. According to a State Department desk officer for Turkey, this would in effect mean no real growth, if Turkey's population growth rate is taken into account.

For years, the IMF has been the main stumbling block for Turkey and other developing countries which seek to become modern industrialized nations. With its often outrageous demands for austerity, devaluation, and backward "appropriate technologies," the IMF has repeatedly prevented Turkey from pursuing its ambitious economic development policies, by going so far as to topple Turkish governments that resisted IMF austerity dictates. In the present situation, Ecevit has been threatened with the "Iran treatment" if he continues to resist the IMF.

Now, with the declaration of his new austerity plan, Ecevit faces the wrath not of the IMF but of the Turkish population. "The IMF's ... conditions ... would be highly unpopular and could topple the government of Prime Minister Bülent Ecevit," wrote the March 7 *New York Times*. By creating the impression that the new austerity plan is his own, Ecevit hopes to save face and

shield himself as much as possible from charges by the population that Turkey capitulated to the IMF.

The fact remains, however, that the Turkish government, isolated internationally by the IMF and pressured from inside by pro-austerity groups such as the Turkish Industrialists and Businessmen's Association, did capitulate. And, unless the government is able to turn its situation around, the result is likely to accelerate the disintegration of the Turkish government.

Violent terrorist incidents and clashes between extremist left and right-wing groups — which have plagued Turkey for months — continue unabated. Martial law, activated in December in 13 provinces, was recently extended for another two months.

On Feb. 23, the *Daily Telegraph* of London predicted major upheavals in Turkey as a result of insurrections by Kurd tribesmen in the impoverished southeastern part of the country. The Kurds, who have been manipulated for decades by British intelligence, and more recently by Israeli intelligence, to oppose centralized authority, are demanding "autonomy" in concert with the Kurds of Iraq and Iran. And there are also efforts to stir up long-dormant rivalries between Turkey's Sunni Moslems and Alevi (Shi'ite).

### Bigger NATO role?

A high Israeli military official last month told the Israeli Parliament in a private briefing that "Turkey will fall as Iran did." At the same time, Palestine Liberation Organization spokesman Hani al-Hassan predicted a

“fundamental change” taking place in Turkey soon in the wake of the Iran crisis.

With these threats hanging over Turkey, NATO commander Alexander Haig arrived in Turkey last week on a surprise visit. Haig, portrayed as a “sympathetic broker” for Turkey, pledged to secure aid for Ankara in exchange for Turkey’s loyalty to NATO. Immediately prior to Haig’s visit, Britain’s chief of staff, Sir Neil Cameron, also arrived in Turkey.

Turkey has been estranged from NATO in the wake of the Cyprus conflict, but with the demise of the CENTO alliance and the emergence of a new military alliance between Israel and Egypt, maintaining and reinforcing Turkey as a bastion against Soviet influence in the Middle East has become a top priority for NATO policymakers in London, Brussels, and Washington.

Reports the Turkish daily *Hürriyet*, “NATO has quietly begun to establish a new ‘defense belt’ ” composed of Greece, Turkey, Cyprus and Israel. The centerpiece of this defense belt is to be Cyprus. According to several sources, U.S. military installations in Iran are being transferred to the two British bases in Cyprus, one of which is known to house nuclear weapons. Personnel facilities at both bases are being readied for at least 8000 additional men.

Taking the bait, high-level government spokesmen have repeatedly stressed Turkey’s geopolitical importance to the Atlantic Alliance recently, in an effort to cajole financial aid from the West, while at the same time, the Islamic fundamentalist National Salvation Party is calling for formation of a new military alliance to replace the defunct CENTO.

But other officials fear that Turkey may be drawn into involvements which may jeopardize its recent, carefully nurtured relations with its large neighbor, the Soviet Union. Declared Deputy Prime Minister Faruk Sükan last week: “It appears that Turkey has been made an important battlefield over which the superpower and imperialist forces are fighting for control. Newly developed conditions require Turkey to review its alliance and agreements. The Turkish state is a nation loyal to its friendship agreements. But I would like to point out that this loyalty does not imply unconditional surrender.”

## Options for Ecevit

Despite Turkey’s problems and the international pressures she faces, the nation’s best bet still appears to be the independent, development-oriented course that Ecevit was pursuing prior to last week’s austerity announcement. Despite the setback administered to those plans last week, it is still possible that Ecevit may be able to salvage his development program.

Among his principal assets: his party, the prodevelopment Republican People’s Party, was established by the founder of modern Turkey, Kemal Atatürk, precisely on the premise that Turkey must

become a modern, industrialized nation committed to scientific progress and technological advancement. Although the party has changed substantially over the years, largely as a result of growing Second International influence over the leadership and “leftist” factions, the nationalist, progrowth orientation of the party remains relatively intact, making the RPP — and hence the government of Turkey — a natural ally of the French and West Germans in their efforts to launch the EMS.

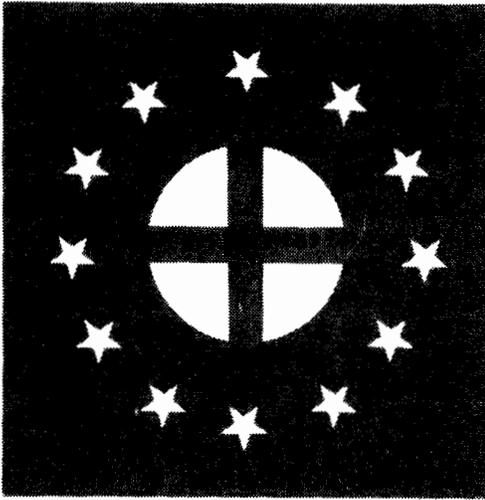
As well, in the overriding interest of bolstering the Ecevit regime and ensuring regional stability, the Arabs — Saudi Arabia, Libya, and Iraq, in particular — are committed to coming to Turkey’s aid. According to the Feb. 21 Turkish daily *Cumhuriyet*, Ecevit is currently negotiating with the Saudis, Iraqis, and Libyans to set up a new “currency basket” to provide Turkey with badly needed credits for imports and development projects. Other Arab countries are similarly investigating the possibilities of investment in Turkey. Likewise, a number of development-oriented U.S. firms are privately looking into setting up joint ventures with Turkish construction companies for projects in the Arab world. “Turkish engineering expertise is little appreciated by most American companies,” commented an officer of a major Midwest corporation interested in working out triangular development projects with Turkey and the Arabs.

In January, Ecevit visited Libya, where he signed an agreement which provides for Libya to increase its oil exports to Turkey by 1 million tons annually, from 4 million tons in 1979 to 5 million tons in 1980. Another agreement provided for the launching of emergency aid initiatives by Libya in coordination with other Islamic countries to help solve Turkey’s balance of payment problems.

Turkish-Soviet relations also continue to improve, with an interesting Arab component. In exchange for wheat and other Turkish products, the Soviet Union has agreed to sell Turkey oil. Iraq, at the Soviet Union’s request, has agreed to pipe the oil, which was originally purchased from the Iraqis for delivery to the Soviet Union for Soviet use, directly into Turkey via the Turkish-Iraqi pipeline.

The relationships being cultivated by Ankara with her Arab, Soviet, and Balkan neighbors provide the perfect environment for the EMS should the Europeans move to extend it to Turkey.

— Nancy Parsons



Symbol of the Pan European Union

### In this section

This week's Counterintelligence report presents Part 2 of our serialization of a lengthy exposé of Otto von Habsburg and the Pan European Union that will soon be released in pamphlet form by the European Labor Party in West Germany. The pamphlet, *Are the Goals and Activities of Otto von Habsburg and his Pan European Union Unconstitutional?*, was prepared as a report to the Special Party Convention on the European Parliamentary elections of the European Labor Party held in Bonn on Jan. 28. The convention approved a slate of candidates headed by the party's Federal Chairman Helga Zepp-LaRouche.

Part 1 traced the Pan European Union back to its founding in the 1920s and 1930s with support of the banking houses of Rothschild and Warburg. Its founder Count Richard Coudenhove-Kalergi incorporated into the movement elements of Anglophile Nazism, like Hjalmar Schacht's concept of corporatism and concentration camps and Karl Haushofer's geopolitical concept of the encirclement of the Soviet Union, with H.G. Wells's scenario for a "New Dark Ages" for Europe.

As President of the Pan European Movement, Habsburg wants to use the European Parliamentary elections scheduled for June 10 to "unify" Europe into a feudalized "Paneuropa of the regions," set against the Warsaw Pact states.

# Who is Otto

*Part 2 of an ELP exposé of what's behind*

### The extra-parliamentary opposition

As a result of spreading anti-industrial propaganda, the Pan European Union today is not only finding support among oligarchical and other circles commonly described as the extreme right, but also among anarchist and Maoist groupings — as well as among the "environmentalists."

In May 1978, the same month that Helmut Schmidt and Leonid Brezhnev signed the 25-year agreement for peaceful cooperation between the Federal Republic of Germany and the Soviet Union, a "Conference on the Imperial Russian threat" took place in Lisbon — the culmination of a series of preparatory conferences. At this Lisbon conference, representatives of Maoist organizations joined hands with Pan European Union representatives and with members of the Christian Democratic Union of the Federal Republic. Together, they militantly demanded the "Unification of Western European Countries" in order "to meet the threat of Russian imperialism." The Maoist "Communist Party of Germany" and the "Marxist-Leninists of Germany" were present, as well as various representatives of Kai-Uwe von Hassel's Hermann Ehlers Foundation. Von Hassel is a longtime senior statesman of the CDU. Present in addition were Senator Massimo di Carolis, Italian representative of the Pan European Union and leader of the "Group of 100" Christian Democrats who are continually threatening to collapse the Italian government; representatives of Margaret Thatcher's Conservative Party of Britain; journalists from Axel Springer's *Die Welt* newspaper; and Cornelia Gerstenmaier, whose father Eugen is not merely well known for his zealous visits to Otto von Habsburg's Center for Documentation and Information in Madrid.

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# von Habsburg?

## *his Pan European Union*

It is not only their backward world outlook that makes these hordes of Maoists and environmentalists useful for Habsburg and the British oligarchy. As early as 1971 Count Coudenhove-Kalergi described the Pan European Union's corresponding guidelines in the following manner:

"The point here is to call a new and militant European youth movement into existence, which will be strongly differentiated from the Pan European movement of today and yesterday, and whose basic character will be revolutionary. Its goal will not only be to unite Europe, but to renew it. It will be a movement that fights on three fronts: against the reactionary plutocracy, against totalitarian communism, and against nationalism....The goal of this European National Movement must be more radical than that of the Pan European Union, which is forced to work together with the existing governments for the unification of Europe.... The student riots of 1968 collapsed because the goal they set out for themselves was a negative one, one directed against the existing establishments — without a positive program."

Habsburg's double strategy consists, in the short term, of dominating the European Parliament through the Pan European Union members that it has insinuated or through the newly won Pan European Union members who are in the existing parties. In the medium term is the strategy for mobilizing a "Popular Movement." Habsburg's predecessor and teacher, Count Coudenhove-Kalergi described the idea behind this strategy:

"Revolutions come about through small groups,

who have generally crystallized around a leadership figure. They can react very quickly when they recognize ideas that are floating about in the air; which is when thousands give a form to the hopes and dreams of millions. The example of Lenin and Mussolini show how small groups can powerfully mobilize millions for their ideas.... The potential for this revolutionary movement is already at hand in all parts of Europe. It will come to an explosion as soon as it finds the correct leadership."

This "revolutionary movement" is nothing less than a new version of the "Blue Shirts Party" that Count Coudenhove-Kalergi founded in imitation of Hitler's Brown Shirts. The *Kölnische Zeitung* of Aug. 8, 1932 wrote the following about the Pan European Union Congress in Basel:

"The new party presented itself in Basel, and wearing their new uniforms, too, that they created in imitation of Mussolini's and Hitler's example. The younger forces of the party wore blue shirts and blouses, the worthy gentlemen wore standard Pan European ties. The 'stormtroopers' of the new party greeted their leaders enthusiastically, but the fascist salute does not yet appear to have been adopted."

Although, at that time, Coudenhove had adopted the entire stock of the Nazis' demands, and particularly the Conservation and Labor Service (slave labor) concepts of Hjalmar Schacht, the Rothschilds, Warburgs, and the British Crown decided in 1933 to follow Schacht's suggestion and give the Nazi movement preference over the Pan European Movement.

Coudenhove reported the content of his conver-

sation with Hjalmar Schacht at the beginning of 1933:

“Hjalmar Schacht was able to bring about the clever trick of remaining a follower of Pan Europa in spite of his admiration for Hitler. In his moderate disposition he explained to me: ‘In three months Hitler will be Reichschancellor! But don’t get worried. Hitler is the only man who is in the position of being able to reconcile Germany with the Western powers! You will see: Hitler will bring out Pan Europa.... Hitler alone can create Pan Europa, because he alone has no right-wing opposition to fear; therefore he, and only he will succeed in finally securing Europe’s peace and cooperation.’”

In 1971, in the conclusion of his book, Count Coudenhove-Kalergi set out his hope for a “new leader”:

“The time is ripe for a new flood: under new leaders, in a new spirit, with a view to the 21st century.”

And Otto von Habsburg recently seized on this memorial passage when he prophesied:

“The day can come that will demand decisions from us of great consequence and the convocation of all fellow citizens of good European will. When this day comes, I will be ready as always.”

## **Dictatorship: the form of the state**

“Only a dictator would make possible the introduction of a new form of life, of a new tradition in Europe, for he will carry through this tradition with violence. All other attempts to do this will fail, because then he would only find limited acceptance.”

Count Coudenhove-Kalergi could frequently give his opinion about the form the state would take. Europe’s population had not yet experienced the Second World War.

But today, Otto von Habsburg expresses himself on this question in a somewhat different manner. The cover for his discussion is the fictitious case of terrorists blackmailing a state with nuclear weapons. The Pan European Union proceeds from the false assumption that terrorists could manufacture nuclear weapons in their basements!

“What would then happen, would downright force itself upon us. First of all, the concept of the ‘state of emergency’ would have to be newly rewritten, and it must be that the invocation of this state of emergency leads to the automatic application of the special considerations.

“The essence would be: All power, without delay, would be turned over to a single individual

person for nine months. For the period of this state of emergency, this man should have the right to suspend all laws and to take all measures that are necessary for maintaining the life of the population. This man would be chosen, along with the application of the constitutional reform, in secret joint session of the Federal Parliament and the Federal Senate. He would automatically step into the Chancellor’s position in the state of emergency.

“The functions of the Federal President would also have to be set aside for the period of the state of emergency. The country’s Chief Justice would have to step into his place.... And with the invocation of the state of emergency, martial law would also be imposed. It appears to be absolutely necessary for such a situation to have a system of justice that operates very quickly, for example, to reintroduce the supreme punishment.”

Aside from the fact that these measures are unconstitutional — the West German Constitution prohibits both one-man dictatorship and the death penalty — one must also consider the personal problems of Otto von Habsburg when evaluating these extremely suspicious statements. A short time ago he remarked that he had “an erotic relation to discipline.” A more in-depth psychological treatment of this question here, however, would carry us far afield.

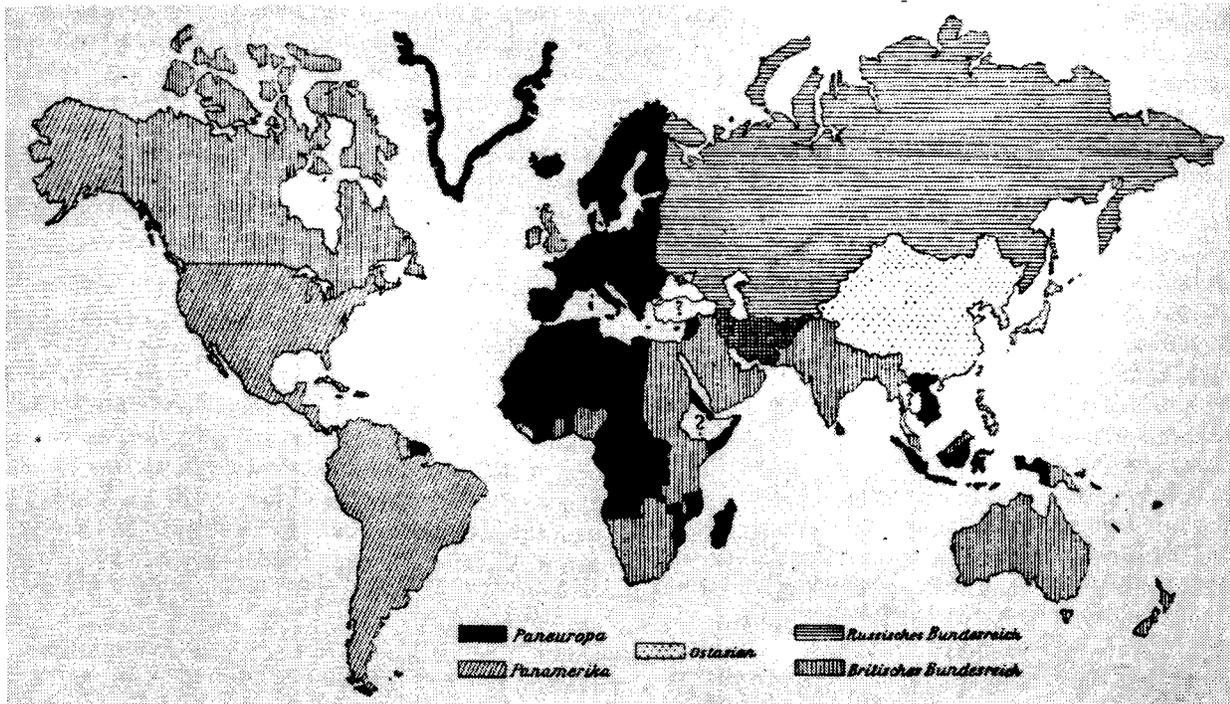
Next to his demand for a dictatorship, Habsburg views “hereditary monarchy” as the best form for a state, because the necessary objectivity of a head of state can only be supplied by “professional” education from the time a person first learns to walk. Habsburg has this form of the state in mind for a united “Pan Europa.” As chairman of a council of the highest judges, the monarch would have the function of being the supreme judge of the constitution and could therefore decide on the constitutionality of laws.

“Certainly the duties of the head of state will go beyond the area of those who guard the law. He will have to control the Executive when this is naturally called upon to carry out the judicial powers. Nevertheless, these duties will only be of secondary importance next to the primary duties of the monarch, who will first of all find in the judge’s office the justification for his functions in a state of the 20th century.”

Naturally, as the “traditionally supernational Habsburg,” Otto offers himself as the candidate in the election for the European monarch, an election for which he is working. The European monarch is to be chosen by the presidents of countries and by the monarchs of individual states.

In his statement on written constitutions, Otto stands in “unbreakable fidelity” to the ideas of Count

## The world, according to the Pan European Union



In 1931, the *Pan European Union Magazine* published a map of the world — as they would like to see it. The world would be divided between Paneuropa, Panamerika, East Asia, the Russian Federal Empire, and the British Federal Empire. Note that the fate of Turkey, Ethiopia, and Thailand are in question, while the Russian and British Federal Empires are contesting control over the region that today includes Iran, Pakistan, Afghanistan.

Coudenhove-Kalergi, who wrote:

“The personality is the goal of neo-aristocratic politics. The quality of human beings is the goal, not the quantity. This does not involve the paragraphs of the constitution, but it is concerned with having the best get ahead: so that the best rule.”

### Habsburg's networks

In addition to the fact that Habsburg is the international President of the Pan European Union, a member of the Maltese Order, and of the Mont Pelerin Society, which plays an important role as the political decision center for the inner circle of the agents of her Britannic Majesty, there is one other important fact about his life. After the imperial Habsburg family was driven out of Austria in 1918, Empress Zita raised her oldest son, Otto, in such a way that any day he could assume the Imperial Crown. The restoration of the Habsburg monarchy was the goal which guided every action.

Hitler, as well as Mussolini, had plans for Habsburg. Mussolini was an enthusiastic ally of the family: “I am absolutely for having Otto come to the throne in Austria as well as in Hungary.” And when Habsburg met Prince August Wilhelm von Hohenzollern, the son of the last German Emperor in Berlin in 1932, Prince August, already wearing an SA uniform, told Habsburg of Hitler's plan to set him up as the leader of the national opposition in Austria.

However, Habsburg opted for exile in the USA, where, together with Coudenhove-Kalergi, he built up a network for a federated postwar Europe. He was calculating on better chances for an imperial empire on the level befitting a Habsburg. In 1943, his friend Winston Churchill promised him that when the Russians were maneuvered out of middle Europe, an Austrian-Hungarian-Bavarian federation would be the ideal solution.

A year before, in the New York Council on Foreign Affairs monthly, *Foreign Affairs*, Otto wrote an article

on the manner in which he wanted the Americans to reconstruct Europe after the war:

“Everything there will depend upon whether the Allies can decide this time to encourage the proper forces in Germany and in those areas occupied by Germany. The proper forces are those who are working toward federalism in Germany and who want to create a supernational community on the Danube.”

Despite his contacts to President Roosevelt and the massive influence of the Pan European network in the USA, the Catholic community and the pro-Soviet circles around General Eisenhower were strong enough to prevent his restoration after the war.

But Coudenhove-Kalergi and Habsburg still had a British card in their hands to use against the alliance between Stalin and Eisenhower. After the war, the entire Pan European initiative was controlled by the British and most of the time through Winston Churchill or by his stepson, Duncan Sandys.

The British Pan European Union Committee that was founded in 1939 under the chairmanship of former Colonial Minister L.S. Amery formed the core of Her Majesty's agents who would control the Pan European Movement and the “reconstruction” of Europe after the war. This committee included, for example, Professor Gilbert Murray, who was one of the most important falsifiers of Greek history at Oxford University and who was specifically brought in for the “Re-education” of Germany.

The same agents showed up once again in the “Provisional Committee for a United Europe” founded in 1947, this time under the chairmanship of Winston Churchill. Duncan Sandys worked out its “Manifesto.” In essence, the committee was not concerned with the generalities about the unification of Europe that were contained in the “Manifesto,” but with the control of the continent. The executive committee of the organization consisted of 23 people, including Gilbert Murray and Lord Bertrand Russell, representatives of various parties in Great Britain, such as Oliver Stanley, Colonial Minister during the war, L.S. Amery and Duncan Sandys for the Conservatives, Labour Party members such as Victor Gollancz, and Liberal Party members such as Sir W. Layton. All churches were represented. The committee was supported by over 2,000 members, including the later Prime Minister Harold Macmillan, Lord Beveridge, and the banker Beddington-Behrens, who reported that the “Movement for a United Europe,” as it was then called, was financed by Lord McGowan, the chairman of Imperial Chemical Industries.

Besides the continental European Movements, the members of this committee also controlled the “European Planning Board,” an economic group in Paris that had a share in coordinating America's Marshall Plan aid. And in the national committee of the “European

League for Economic Cooperation,” also controlled by the British, was Ugo La Malfa, an experienced government destabilizer in Italy.

Next, Count Coudenhove-Kalergi concentrated on establishing the “European Parliamentary Union.” With Winston Churchill's support, it was founded in 1947 in Gstaad in Switzerland.

“It is the goal of our conspiracy to organize parliamentary majorities in all of Europe that will be strong enough to force the governments to carry out our program.”

In 1954, the first postwar Pan European Congress took place in Baden-Baden. As President, Count Coudenhove-Kalergi sat next to Vice Presidents Erich Mende and Paul van Zeeland. Today's present Pan European Union chairman in Germany and the former Minister for Exiles in Bonn, Joachim von Merkatz, was one of the most prominent speakers, as was Frankfurt School Professor Max Horkheimer. Prince Lennart Bernadotte, an aspirant to the Swedish throne, reported about sociological experimentation on his island of Mainau in Lake Constance, which today is a center for environmentalists. Then, as a member of the Central Committee of the Pan European Union, Otto von Habsburg was confirmed in his role as Count Coudenhove-Kalergi's chosen successor.

## Habsburg's power base

The Pan European Union journal described the postwar phases of organizational development briefly:

“The movement's fourth phase (1947-1952) attempted to define a policy of European federalism for the governments by mobilizing the parliamentarians. Its instrument was the European Parliamentary Union (President: Georges Bohy, General Secretary: R. Coudenhove-Kalergi), which played a decisive role in the founding of the European Council and the European Iron and Coal Union.

“The movement's fifth phase began after the death of Count Coudenhove-Kalergi in 1973, when Dr. Otto von Habsburg became the international president of the Pan European Union. Although Coudenhove saw his task as building up the Pan European Union as a community of a few, but influential personalities, Dr. Otto von Habsburg considers it necessary to develop the Pan European Union in all of Europe into a mass organization. In the meantime, there are national sectors in all EEC countries, in addition to sectors in Greece, Spain, Switzerland and Portugal...”

Under Habsburg's presidency, the European publication *PanEuropa* was once again set up as the Pan Euro-

pean Union's mass-circulation organ and the youth movement, "Pan Europa Youth," was founded.

Habsburg himself took care to cultivate international connections through the worldwide network of his family's dynasty and through his membership in the inner circles of the British oligarchy.

So, for example, it was just a short time ago that Habsburg was, in his own words, in "national-socialist" China for three weeks as an "Ambassador of Europe." During this trip, he consolidated a geopolitically important front against the Soviet Union and confirmed the "harmony of similar interests" in face of "similar dangers."

"And what was always said to me was that we should not, for God's sake, write off the German eastern territories. And all the Chinese questioned me about German reunification. In words that almost correspond to an oath, they pointed out to me that we should never be allowed to forget the importance of Berlin for Europe's future."

As one of the coordinators of subversive activities directed against the countries of the Warsaw Pact, Habsburg has succeeded in the last couple of years in bringing almost all the exile organizations and peasant associations that are based on the anticommunist line into the Pan European Union through corporative membership. As a result, he has made available to himself the potential existing throughout the entire country that is needed to bring about a fourth major political party in West Germany. Already, the leaders of the associations of the Exiles Leagues, the peasant associations, and the Pan European Union were very often the same people. In addition to the strongly peasant-based, separatist, and anticommunist mass base of these associations, Habsburg also gained the advantage of close organizational connections to the old Eastern Maltese and aristocratic networks. These people in addition to sitting on top of the exile associations, also belong to affiliated "cultural institutes," such as the "East German Cultural Council."

The Pan European Union's most tightly knit network is in Bavaria and the countries of the "Alpine Fortress" — South Tyrol, Austria, Vorlberg, Triest, and so forth. A great number of CSU members are also Pan European Union members. Bavarian Christian Socialist Heinrich Aigner plays a very important role as Vice President of the Pan European Union, State Chairman of the Pan European Union in Bavaria, CSU member of the Federal Parliament in Bonn, and member of the European Parliament. Count Hans Huyn plays a role similar to Habsburg as this circle's "foreign policy expert" on Africa as well as the Mideast. The Hanns Seidel Foundation, the CSU's thinktank, cultivates close rela-

tions to the Pan European Union. The branch office of the Hanns Seidel Foundation in Cairo is thought to be the base through which Habsburg can influence the Mideast.

Not too long ago, Habsburg thought the opportunity favorable to present himself as an "integration figure" during a tour of Christian Democratic Union locals. His sympathizers include leading CDU politicians Alfred Dregger, Karl Carstens, and Ernest Albrecht. Hans-Edgar Jahn, a CDU member of the Federal Parliament from Lower Saxony, is also a Pan European Union Vice President and its state chairman in Lower Saxony.

Gerhard Löwenthal and the many extreme right-wing members of the Witiko League can be counted as part of the circle of Pan European followers, as can Prince von Lobkowitz, the president of the University of Munich and the chairman of the Bohemian exile association, "Communio Nova Bohemica." Helmut Bärwald, the former leader of Willy Brandt's SPD Ostbüro in West Berlin, is now considered to be one of the enthusiastic journalistic supporters of 'Paneuropa.'

Among other spirited followers of the Habsburg dynasty are the chairman of the South Tyrolean Peoples Party, Silvius, and the chairman of the Triest autonomists, Enrico Pruner, to name only two from the "Alpine Fortress region."

In Italy recently, the chairman of the Pan European Union there, Count Luigi Rossi de Montelera and his friend Massimo di Carolis, once again called for a new government crisis and for the defeat of Christian Democratic politician Granelli, whose policies are oriented toward development. This di Carolis is not only the friend of the Maoists mentioned in connection with the 1978 Lisbon Conference, but he is also one of the key contacts to the Lebanese Falange. Together with Count Montelera, he, as a friend of Umberto Agnelli and Amintore Fanfani, is also involved in the Spanish and Mexican networks that are grouped around the Pallavicini family of Italy's "Black Nobility."

Weeks ago in Paris, Habsburg and Franz Josef Strauss attempted to influence the policy of the government of French President Giscard d'Estaing toward Africa by holding a conference on the same topic with a number of French politicians. In the weeks and months ahead, Habsburg will be attempting to strengthen the "French flank" of his operation, which got a good start when Alain Peyrefitte was named first General Secretary of the Pan European Union. Habsburg is in the habit of making policy for Africa through his family's strong presence in Belgium. The family controls the Société Generale bank and the Union Minière, implicated in the invasion of Zaire's Shaba province.

*To be continued*

# WORLD TRADE REVIEW

## New trade deals

PRINCIPALS	PROJECT/NATURE OF DEAL	COST	FINANCING	STATUS
West Germany/Saudi Arabia	Korf Stahl to build Jubail Steel complex making 850,000 tons/yr.	\$600 mn	U	III
United Kingdom	\$430 mn potash fertilizer plant	\$430 mn	UK gov't loan for \$20 mn, rest U	
Saudi Arabia/United Kingdom/U.S.	Joint UK/U.S. construction of Western section of Trans Saudi pipeline	\$100 mn	U	II
Ivory Coast/Brazil	Purchase of Brazilian products	\$100 mn FF	Brazilian credit	I
Brazil/USSR	Brazil sold USSR 300,000 tons of soy oil	\$150 mn	—	II
United Kingdom/USSR	Capital goods sale to USSR	\$20 mn	Morgan Grenfell to Moscow Narodny credit line	I
Japan/Australia	New iron ore mine in Western Australia with 40 percent Japanese ownership	\$25 mn	U	IV
West Germany/Burma	Fertilizer plant, cable factory, ships	\$24 mn	Low interest loan	III
Kuwait/Japan	Kuwait Oil Co. awarded Japanese Kobe Steel a turn-key project to build gas-gathering center and pipeline	\$20 mn	n.a.	Awarded 3/79
Japan/Indonesia	P.T. Indonesia Asahan Aluminum buys hydraulic power plant for aluminum smelter from Tansei Corp. & Hazama-Gumi	\$50 mn	—	order signed
USSR/Bolivia	Trade agreement of Soviet mining equipment for Bolivian minerals extended to 1984	n.a.	USSR	IV
Kuwait/Malaysia/Indonesia	Construction of 100,000 bpd refinery in Indonesia	n.a.	Pending expected credit from Kuwait	Signed 3/79
Holland/West/Germany/Algeria	LNG supply from Algerian State Co. (Sohatrach to Holland's Nederlandse Gasunie and 2 West German firms (11.2 bn cu. meters/yr.))	n.a.	NA	Start 1983

**Abbreviations:**

U = Undetermined  
 NAp = Not applicable  
 NAv = Not available

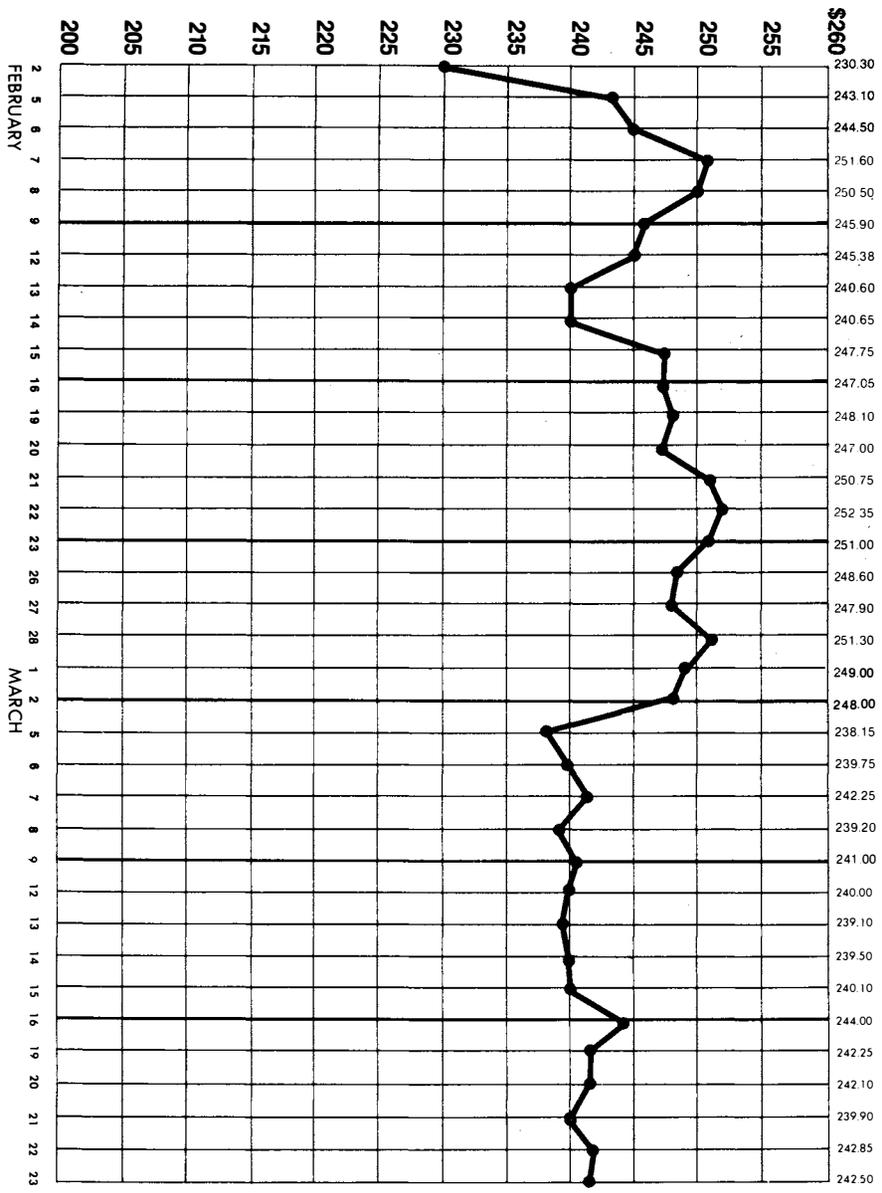
**\*Status:**

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

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# Gold

London afternoon fixing



# The Dollar

In deutschemarks. New York closing

