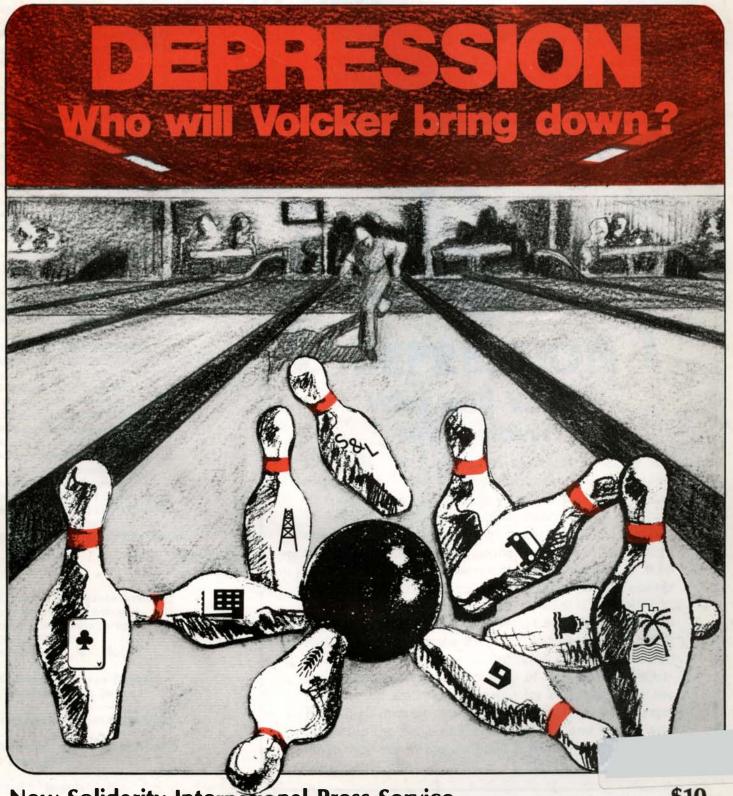
EXECUTIVE INTELLIGENCE REVIEW

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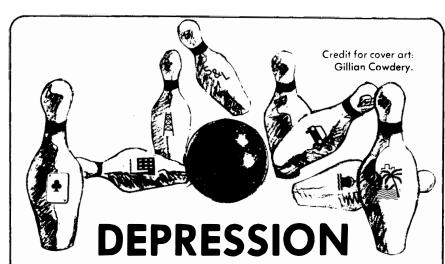
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EXECUTIVE INTELLIGENCE REVIEW



Who will Volcker bring down?

Last week, the Riemannian econometric model was employed to forecast a 15 percent decline in U.S. industrial output for the coming year, due to recent actions by the Federal Reserve under Paul Volcker. But the depression now in process of striking down U.S. industry, will hit some sectors sooner, and some later. That's the way the Federal Reserve chairman planned it. Who will the first victims of economic murder be? The answer is given in this week's ECONOMIC SURVEY, "DEPRESSION: Who will Volcker bring down?", a 25sector profile using the Riemannian forecasting method designed by LaRouche. The "spectral analysis" involved simultaneous computer solution of 75 differential equations to tell who was targetted for catastrophe by the Fed's high-interest-rate regimen. Plus: There are precedents for the Fed's deliberate actions, and we tell you what they are in the included feature: "Britain caused the Crash of '29." Page 22

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Illinois lawmakers want Volcker's head

Suspending the rules, uniting representatives of business, labor, farmers, leaders of both political parties, and followers of various presidential candidates including Reagan, Kennedy and LaRouche-that's what happened in both houses of the Illinois legislature, when they unanimously resolved that Paul Volcker should lower interest rates or resign. This week's U.S. Report gives you the story, and asks: Is the unprecedented nature of the Illinois action the start of something national? Among those wondering are John Connally, who has backed Volcker all the way. Ted Kennedy has been shyer on the matter, but our report also asks: "Connally's economics or Kennedy's: Is there any difference?" Page 38

Decoupling the developing sector

What do higher interest rates in the advanced nations mean for heavily indebted Third World countries, who are already at the point of inability to pay? And what would Third World bankruptcies mean for the advanced nations? Our LATIN Report examines those questions by taking a look at Brazil-the "miracle" economy of the '60s and '70s—that depends on heavy credit flows, and whose own debt problems could be enough to throw the Eurocurrency markets into chaos. do Anglo-American bankers want to "decouple" Brazil from the credit system? What political course is Brazil's new leadership wont to pursue? Page 47

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What's behind the Sindona affair?

Was Italian financier Michele Sindona really kidnapped? What's the connection with Sindona's pending trial on fraud charges over a U.S. bank failure? We found out the answers, and our EUROPE Report tells you. "A Dope, Inc. kidnapping: What's behind the Sindona Affair?" is an EIR exclusive, and raises some interesting new questions: For example, is there any connection between Italian mafiosi arrested for links to the abduction, and certain more respectable bankers in both Italy and the U.S.A. who very much disliked Sindona's closest friend, Pope Paul VI? Page 51

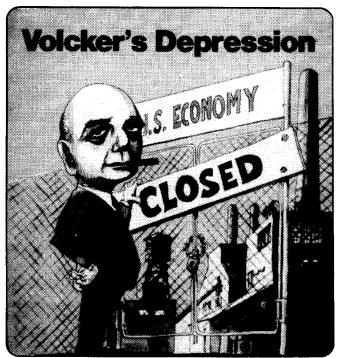
Moscow: SALT worthless, if...

Is the American government using the U.S.-Soviet arms limitation treaty to prepare Europe for nuclear war on its own? The Soviet Union, whose leader recently announced unilateral Central European troop withdrawals, is now beginning to think the answer is yes, with some very good reasons. In "Moscow: SALT worthless if NATO 'modernizes'," this week's SOVIET Report explains why the Kremlin is now uttering some of the toughest sounds to come from that quarter in a long time. Included are excerpts of statements by leading Soviet commentators, plus the Minister of Defense: "Ustinov views global United States posture."

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A signal from West Berlin

Valéry Giscard d'Estaing's visit to West Berlin Oct. 28 was one signal that the Franco-German leadership that created the European Monetary System is not about to be easily blackmailed into acceptance of the war policy emanating from Washington. A second signal came when, according to a leaked report in the London Guardian, Giscard made plans to reorganize the present European Community Commission in such a way as to eliminate the British stranglehold over that policymaking body.

Giscard's actions must be seen in the context of the lurid and explicit threats against every aspect of the EMS-based strategy for peace and economic development that he has promoted, together with West German Chancellor Helmut Schmidt, since 1978. These threats, described in our ECONOMICS report in this issue, are being delivered by such nominally U.S. officials as the Treasury's Tony Solomon and Congressman Henry Reuss, but their source is unmistakably British. No observer of the tug-of-war that has gone on throughout the period of the EMS's official existence from January of this year, between Great Britain's determination to sabotage the new system and the French and German led resistance to British policies, can miss the significance of Undersecretary Solomon's repeated snipes at the "consensus" process in the EC.

What the London strategists and their allies on this side of the Atlantic most fear is that continental Western Europe will be propelled ever more forcibly into a new relationship with the Soviet Union that will be primarily motivated by the urgency of avoiding war. The content of that relationship is, necessarily, joint economic development projects in the Third World, using such vehicles as the EMS's gold reserves to create the credit. The direction was set by the May, 1978 summit between Schmidt and Brezhnev in Bonn, and strengthened this last April when Giscard went to Moscow.

It is well known in London that the consolidation of this policy will abruptly end London's financial hegemony; hence the frenzy with which British intelligence is pulling every string for political and financial warfare against the EMS, including deployments to wipe out the Third World leaders who are Europe's collaborators. Hence the importance of what Giscard did in West Berlin, on the first state visit from a French head of state since the end of World War II.

The French President pointedly included Soviet representatives at various levels of the festivities, underscoring in his speeches his intent to convert West Berlin into a symbol of "dialogue between East and West."

In his speeches, Giscard focused on the central point of his foreign policy: Franco-German cooperation as the key to East-West detente. He recalled the depth of Franco-German collaboration since the mid-17th century, but left unsaid that this cooperation invariably centered around their joint opposition to Great Britain.

Helmut Schmidt traveled to West Berlin to meet his French counterpart in what the French press reported as a gesture the two deliberately planned to dramatize their disagreement with the Anglo-American axis with respect to detente.

But equally important with the West Berlin celebrations is the news that France will reorganize the EC bureaucracy and take responsibility for Euro-Arab relations into its own hands. The point is that London and its allies have thrown down the gauntlet as to who will control Europe and its major political institution, the EC, and to what ends. And Europe's response is looking tougher than what the London crowd expected.

-Nora Hamerman

The Week in Brief

The Illinois House of Representatives on Oct. 31 and the Senate on Nov. 1 unanimously adopted a resolution calling for the resignation of Federal Reserve Chairman Paul Volcker. The resolution was introduced by Democratic Representative Larry Bullock and was supported by both the Democratic and Republican Party leaderships (see U.S. REPORT).

This bold move by the Illinois Legislature could spark similar legislative moves in other states to pull the nation back from the brink of a deep recession. The 30 cosponsors of the bill represent business, labor, farm and minority constituencies and cut not only across party lines, but presidential preferences, including supporters of former Governor Ronald Reagan, Sen. Edward Kennedy and Lyndon H. LaRouche, Jr.

Rep. Bullock is planning to deliver personally the Illinois resolution to the U.S. Congress and urge their swift action.

All of France was shocked with the Oct. 30 report that Minister of Labor Robert Boulin had been found dead from an overdose of barbituates and drowned in a pond outside of Paris. The minister's death was reported as suicide. But Boulin had been the target of a vicious slur campaign which was started by marginal right- and left-wing newspapers and given credibility by the french emulators of the Washington Post, notably Le Monde and Le Matin de Paris.

According to sources close to the deceased minister, it is "99 percent certain" that this "suicide" was murder and but one piece of an Anglo-American campaign to undermine President Giscard d'Estaing's Third World policy and to facilitate their own plans to politically and economically dismantle the Third World.

* * *

The education minister of Guyana, Vincent Teekah, was ambushed and murdered in Georgetown, Guyana on Oct. 24th. While no arrests have yet been made, the murder has all the markings of a professional hit operation.

Just a week before the Teekah murder, British, Canadian and American officials secretly met in London to map out a strategy to forcibly impose NATO policies in the Caribbean. According to sources close to the meeting, this grouping agreed upon the necessity of changing the policy direction of Jamaica, Guyana and Grenada.

To accomplish this strategy in Grenada and Guyana the group decided it would be necessary to effect a change in the top people around the prime ministers. In the case of Jamaica it was estimated that Prime Minister Michael Manley would have to be removed from power.

In an Oct. 25 nationally syndicated column, Jack Anderson set the stage, emphasizing Manley's shift to the left and alleging intimate association with Soviet secret intelligence.

An internal explosion in Iran and a U.S.-Soviet confrontation over that

strife-torn country are looming on the horizon. A crisis of oil supplies and pricing in the sensitive Persian Gulf region is possible, sending new shockwaves throughout the world community.

Over the past days, "autonomist" movements against the central government have gathered strength in north-central Iran, in northwestern Iran (among the Kurdish people), and in southern Iran (among Arab groups). This separatist unrest conforms to predictions by Senator Henry Jackson on U.S. nationalt elevision on Oct. 21: Iran is "splintering into pieces" and would be the trigger for a new oil crisis. Jackson suggested that joint "Egypt-Israel strike forces" could be deployed to the Gulf in the event of a crisis.

But Iraq has stepped up its campaign against the Khomeini government, demanding an immediate end to its expansionist policies against the Arab countries.

London and Washington strategists are toying with support for a military-intelligence faction in Iran that could assume state power and then officialize a U.S.-Iran military pact. Such could be the trigger for the Soviet Union to invoke its 1921 treaty with Iran, which allows for military intervention to head off foreign actions "hostile to the Soviet Union."

The assassination of Korean President Park Chung Hee, despite continuous revelations of details of the bloody murder, remains an unsolved mystery. The suggestion from many corners—including Moscow, Tokyo, and Seoul itself—is that there was a U.S. role in the entire affair. Certainly, important elements of the U.S. policy-making elite have not made any secret of their dislike for Park and their desire to have him out of the way The New York Times editorial the day after termed his death "an opportunity."

The "Iran" parallel has been made, suggesting that American officials and others had clearly communicated to their counterparts in Korea, including the military, that Park was getting out of hand.

Korean sources report that President Carter, in Seoul last June, asked President Park whether Korean forces would be available for deployment outside Korea, mentioning particularly the Middle East. Park is unlikely to have agreed to the proposal given Korea's massive interests in the area, particularly Saudi Arabia.

The Peking regime is preparing once again to invade Vietnam in the hope of bringing their rival for Southeast Asian power to heel. The Paris daily Le Matin reports that the only question being discussed in Asian capitals is when? The timing is linked to either the end of the Hua visit to

Europe and/or the conclusion in mid-November of a scheduled UN debate on Kampuchea.

But the stage is being set, including an increased U.S. presence in the region, complete with arms supplies being stepped up to Thailand, Malaysia and the Philippines and a vast propaganda campaign asserting that Vietnam, not China is responsible for the conditions in Kampuchea. Some of the following items suggest the Vietnam War is not over:

Vietnamese Defense Minister General Giap is charging that the U.S. and China are arming remnants of the Pol Pot forces now in Thailand.

French sources report that the Laotian armed forces are on alert and that Chinese troops are being mobilized on the Vietnamese border.

U.S. Assistant Secretary of State Holbrook told the press in Singapore that if Vietnamese troops cross the Thai border in pursuit of Pol Pot bands, the situation would be considered "serious."

Mobilization against the **European Monetary System**

During a secretive and very top-level international bankers' conference held Oct. 26, in Port Chester, New York, an American representative openly insulted the West German government by comparing it to the Hitler regime. Despite efforts by the conference sponsors, West Germany's Friedrich Ebert Foundation, to keep the proceedings as secret as possible, West Germany's leading business daily Handelsblatt reported Oct. 31 that the Americans at the conference were "disgusted at the new hubris of the ruling German elite," reporting

INTERNATIONAL CREDIT

that one announced: "and think that a few years ago [sic] Hitler was trying to teach us Americans a lesson in democracy."

The offensive incident occurred in the presence of U.S. Under-secretary of the Treasury Anthony Solomon. Solomon not only failed to dissociate himself from this treatment of a leading U.S. ally, but in his own speech (excerpted at length in this issue of EIR), blamed Western Europe for the weakness of the U.S. dollar and economy. Europe's refusal to agree to a 'dollar substitution account," run by the International Monetary Fund, and Western European attempts to guarantee oil supply arrangements with the OPEC oil producers, are the major causes of world economic instability, Solomon asserted.

Solomon specifically warned the West Europeans to a) put an end to their economic and industrial collaboration with the Arab nations; b) to end their industrial export policy; c) to scrap their positive orientation of the European Monetary System toward financing Third World industrialization; d) to launch a policy of domestic austerity and budget cuts; e) to capitulate to the dictates of Great Britain within the context of the European Economic Community; and finally, to scrap their detente policy toward the East and launch a new armaments drive.

Other attendees at this gathering included Denis Healey, former British Chancellor of the Exchequer; Karl Otto Poehl, soon to be head of the West German Central Bank; Karl Kaiser of the "Atlantic Bridge"; Lawrence Krause of the Brookings Institute; Dieter Hoffman, chairman of the Bank für Gemeinwirtschaft, a large West German bank with a documented, longterm association with the international Zionist movement; and Morgan Guaranty economist Donald Red-

The incident described was no unfortunate, isolated outburst. On Oct. 31, the head of the U.S. Export-Import Bank, John Moore, told the Chicago Tribune in a promintnely featured interview that France holds primary responsibility for the U.S. balance of trade deficit. France "is the most obdurate nation," he stated, among countries presently using export subsidies to guarantee their industries.

These anti-European attacks by, or in the presence of top-level U.S. officials, help identify a pattern of Anglo-American financial warfare since the end of September. The coming weeks of this battle will determine the state of the world economy until the end of 1980.

IMF-Volcker gameplan

Since the end of September, an international battle over the creation of a new world monetary system has come out into the open between political and financial factions internationally. Three related developments which have occurred in that period make certain that by January 1980 at the latest, the U.S. dollar as an instrument whose value is determined by U.S. government and corporate policies will cease to be the world reserve currency.

Foreign-held dollars may or may not cease to be the key world reserve. Whatever way the chips fall, for at least the period that the Carter administration is in power, dollar policy, as well as the dollar value will no longer be a matter over which U.S. institutions have any more control than an array of powerful interest groups worldwide.

The present U.S. administration is fully complicit in this pending "dethroning" of the U.S. dollar. How did this happen?

The three developments conditioning the fate of the dollar were the following: 1) the inability of the International Monetary Fund during its late September 1979 annual conference to secure tangible progress on its dollar-substitution Special Drawing Right reserve proposal, and the unprecedented attacks on its policy of imposting austerity "conditionalities" on the developing sector in exchange for loans; 2) the announcement of a credit-restraint policy by U.S. Federal Reserve chairman Paul Volcker over the Columbus Day holiday weekend, guaranteeing major political and/or economic disruptions in the U.S. in the coming weeks, 3) Great Britain's decision to end 30-year-long exchange controls over the pound sterling on Oct. 30 to allow the expanded use of sterling in international transactions.

Immediately following the late-September IMF meeting, a committee of pro-IMF international bankers and monetary officials called the "Group of 30" called an emergency meeting on the site of the IMF conference in Belgrade, Yugoslavia. Chaired by former IMF Executive Director Johannes Witteveen, the group was initially formed last February with a grant from the Rockefeller Foundation, to defend the IMF's power and reputation. The IMF's power had been called into question by the January, 1979 announcement by France and West Germany that they had successfully pulled continental Europe and Ireland into a European Monetary System (EMS) and pooled 20 percent of their gold and dollar reserves. Although for several months in early 1979, French and West German spokesmen diplomatically denied that the EMS could "challenge" the role of the IMF, European financial newspapers openly debated the EMS versus IMF issue.

At the September IMF meeting, French officials made clear that the EMS was indeed irreconcilable with

Solomon demands Europe follow U.S. into shutdown

The following are excerpts from the address of U.S. Treasury Secretary Anthony M. Solomon to the Ebert Foundation Conference in Port Chester, New York, Oct. 27:

- ... 3. All principal elements of U.S. economic policy are directed at containing inflation....
- 4. The Federal Reserve is moving aggressively to reduce the rate of growth of money and credit. The steps announced by the Fed earlier this month are strong and will be effective. They have already had a very noticeable effect on public attitudes and expectations. They were needed and appropriate....
- 6. The ten-fold increase in world oil prices has been a principal contributor to acceleration of inflation in this decade, in the United States as elsewhere. The U.S. objective of securing energy independence has obvious national security motivations. But it is also an important element of our effort to contain inflation and strengthen the U.S. external position....

- 11. With respect to the international economic situation the picture is once again dominated by the impact of OPEC oil price increases....
- 13. ...We do not expect a generalized financing problem. There probably will be some individual problem cases, and we need to anticipate increased demands on the IMF for balance of payments financing. The Fund is in a very strong position to meet larger demands, and its resources will be expanded significantly through a 50 percent quota increase late next year. The U.S. will be submitting legislation for the increase in its quota very shortly....
- 15. We need also to continue to press for longer term improvement in the international economic and monetary system. Three main lines of effort are under way.
- IMF surveillance over the balance of payments adjustment process.
 - Discussions of a possible substitution account,

the existence of the IMF, by publicly criticizing IMF policies toward the Third World. Instead of retiring dollar reserves, the EMS "Phase Two" potential is to mobilize them, "inflation-proof" them with gold backing, and generate hundreds of billions of dollars in financing for advanced sector exports, investment, and technology transfer to the underdeveloped nations.

During a recent review at National Security Council level of

National Security Advisor and Secretary of Defense, decided that as a result of the emergence of the European Monetary System, their objectives are about to fail. These spokesmen are attempting to generate a modicum of public acceptance to a policy which was promulgated by Messrs. Cyrus Vance, Zbigniew Brzezinski and Harold Brown during 1975 under the title "Project 1980s" under the auspices of New York's Council on Foreign Relations. That program stipulated that the basic objective of the next American administration should be to prevent an international alliance of industrial forces from Europe, Japan and North America with political groups of the Third World that seek industrialization and modernization. On the basis of this estimation of the EMS, during the week of Oct. 6, the decision was made to launch an all out offensive internationally to wreck the EMS before the upcoming NATO annual meeting in mid-December.

'Group of 30'

Witteveen's "Group of 30" convened to design a scheme whereby they could essentially bully Western Europe to "merge" the EMS with the IMF. From the start, Witteveen's group assumed that crushing the EMS in this way could only succeed by finishing off the U.S. dollar's world reserve role, quickly.

Other members of Witteveen's group include: West German Central Bank chief Otmar Emminger, an open adversary of Chancellor Schmidt; economist and Belgian banker Robert Triffin: Robert Roosa of Brown Brothers Harriman; and U.S. Fed chairman Volcker.

to promote the role of the SDRs in the international monetary system.

• Discussions on surveillance over, and possible steps for better management of, the Eurocurrency market....

U.S. and Europe

- 17. This brings me to what I regard as the central policy issue for the 1980s. That is whether the world will learn to strengthen its processes of international economic policy coordination—managing interdependence-or slip back toward a nationalistic approach to dealing with specific problems....
- 18. The U.S.-European relationship, and our joint relationships with other major countries, are central to how this question is to be answered. If we can't lead the way, through meaningful policy coordination between the U.S. and Western Europe, there is little reason to expect broader success....
- 19. ... Close U.S.-European cooperation dominates the post-war record. But there are also irritants and sources of tension—some small, but other larger and potentially important—that need to be aired and understood....
- 20. First, I see a problem of tone and attitude in the overall U.S.-European economic relationship, an

- ambiguity in European views about the nature of that relationship. ... Raymond Aron, in a recent article, said "Europeans no longer put their trust in NATO or in the American nuclear umbrella. What they trust now-a-days is the caution of the Bolsheviks, aware as they must be of the incalculable danger of an attack on Western Europe." The point, of course, is that the caution is dictated by the existence of NATO and the nuclear umbrella, but the point is lost in this particular European perspective of the U.S.-European relationship.
- 21. There is a similar ambiguity over questions of initiative and leadership in the economic area. The U.S. continually hears European calls for stronger U.S. leadership in the economic area, and specifically in the monetary area. And we hear repeated European criticism of U.S. failure to exercise leadership, U.S. failure to properly meet its world responsibilities. Yet when the U.S. does attempt to exercise leadership, there is frequently a notable absence of European willingness to follow.
- 22. This is not a recent phenomenon. It characterized the discussions in the late 1960's on the exchange rate system, compelling the U.S., very reluctantly, to resort to unilateral action to bring about a change which ultimately became unavoidable. And it domi-Continued on page 10

Witteveen himself, a member of a highly secretive religious "Sufi" sect, is a leader among Dutch and British banking circles which have also recently created the Thatcher government in Britain as a conservative "counterpole" to the Schmidt-Giscard alliance in continental Europe.

It was in conjunction with these deliberations that Volcker cracked down on U.S. bank lending over Columbus Day weekend. Volcker used what turned out to be a suspicious "computer error" in the U.S. money supply figures, apparently a \$3.7 billion miscount in data reported by Manufacturers Hanover to the New York Federal Reserve, as the excuse for tightening the U.S. money supply. The spiralling U.S. unemployment and production cutbacks which this credit cutoff will produce in coming weeks, and Volcker's continuing threat that he will take more drastic action, such as impose credit controls, are aimed at forcing the EMS countries to either immediately break with the dollar in favor of a "deal" with the IMF, or be faced with the prospect of having European industries crushed by

collapsing, dollar-denominated export orders and general financial chaos. Volcker's threat has been accompanied by warnings from House Banking Committee Chairman Henry Reuss at the Oct. 29 Joint Economic Committee hearings that economic cooperation between Europe and the Arab world must cease.

Late last week, Emminger concluded an emergency deal with his Swiss counterpart, Central Bank head Fritz Leutwiller. The Swiss and West Germans are to stop selling dollars to defend the mark-franc parity, implying that the franc and mark will now be freely printed up for a "reserve currency" function. This development, as well as Emminger's announcement of two interest rate increases in West Germany over the past week—moves which support Volcker's tight-credit regime—have produced some euphoria in the pro-IMF camp. On Nov. 1, for example, Robert Triffin addressed the World Affairs Council of Philadelphia, and reported that a "breakthrough" had occurred around the EMS. The EMS, he insisted, is a "regional effort" to assist the IMF in gaining "surveillance" over international credit.

Solomon...

Continued from page 11

nated the negotiations on monetary reform earlier in this decade.

23. It is understandable if there are differences of view over the substance of such questions. There inevitably will be. The substance can be debated. But Europe itself has and should acknowledge a growing responsibility to exercise leadership, not only in the expression of its views, but in contributing to the solution of common problems. The responsibility cannot be one-sided, and Europe collectively has major potential for leadership of its own. What is not constructive—and can even be poisonous to the relationship and exacerbate specific problems—is for Europe to cloak its substantive disagreements, and avoid accepting its own responsibilities, by resting on accusations of failure of U.S. will and leadership....

25. There is a wide variety of multilateral issues on which we attempt to coordinate with the EC—for example, issues arising in UNCTAD or other U.N. forums, issues arising in the IMF or World Bank, and so forth. What we frequently seem to find is one of three things. In some cases, the EC countries have already taken an internal decision, and there is no scope for negotiation of a position that is more

broadly acceptable to the U.S. and other industrial countries. In some cases, the EQ countries are unable to agree among themselves, and there is basically no EC view to try to work with. In still other cases, EC efforts to reach an internal view tend toward the least common denominator—or in some cases a view that moves too far—and produce results that are only marginally acceptable to the majority of EC countries themselves and unacceptable to the U.S. and others.

'Inflexibility'

26. In essence, there is at times an inflexibility in European decision-making that is not only difficult to work with, but makes it difficult for Europe to exercise the responsibility and leadership that its own collective economic position warrants. Hopefully this problem will evaporate as the unification process evolves—it is generally least evident in the trade area, where the EC has formal competence—but it does represent a real impediment to meaningful policy coordination on a global scale....

28. The dollar continues to play an extremely large role in official reserves and private international transactions. To an extent, this role for the dollar may be a contributing factor in exchange market problems, and it is certainly a target of European criticism at times. At the same time, there is a great European reluctance to see or facilitate a change in that role for the dollar

The EMS's accounting unit, the ECU, he described as "real money," namely a suitable replacement for the U.S. dollar.

Triffin and the Group of 30's design is that, as the dollar goes under due to Volcker's scheme, it should be replaced by "numerous" other currencies.

Britain hopes to gain special benefit from a "multicurrency" replacement for the dollar, since internationalization of the pound would allow Tory-run City of London interests to carve out of the dollar "empire" those areas of world finance the British know best: commodity speculation, and specialized trade financing with former British colonies, on top of equity grabs in North America.

As Triffin's Philadelphia speech also made clear, however, the multi-currency "compromise" depends on subordinating the EMS to the IMF. Just as Solomon demands in the speech cited below, the plan would involve leaving the IMF the task of global coordination of how to dispose of the huge surplus of dollars held internationally. With such powers, the IMF could then

withhold liquidity region by region, on the Turkey model.

Triffin's recent appointment as an official consultant on the EMS to the European Community is also an indication that the Volcker moves have partly served the "Group of 30"/Friedrich Ebert forces in wrecking the EMS.

Hit Volcker

However, important European financial outlets have begun to issue harsh attacks against Volcker's credittightening measures. For example, on Nov. 1, Handelsblatt derided Volcker's use of the "computer error" as his excuse for cracking down on U.S. money supply growth in two biting articles. One, which continuously refers to him by his full name, Paul Adolph Volcker, states, "The sorcerer Volcker still has a very powerful gold lobby [pro-EMS lobby—ed.] to face—to take away the magic of the vellow metal he will have to pull some more rabbits out of the hat."

-Renée Sigerson

through greater willingness to provide international credit themselves; to permit greater use of their own currencies in reserves: to seriously consider steps toward evolution of a larger role for the SDR. I readily acknowledge responsibility for the United States to maintain reasonable balance in its account. But I cannot accept the idea, which I think is implicit in much of the criticism of the international role of the dollar, that the provision of international credit should be sharply curtailed and that it is up to the United States to do it. There is a real need for credit to maintain a functioning world economy. It is reasonable to expect a larger European role in supplying that credit.

29. Second, the United States continues to bear large foreign exchange costs—on the order of \$2.5 billion net annually—in the area of European defense. I don't for a moment deny that this is in our common interest, and I am not suggesting a renewal of offset negotiations. But I am suggesting that this should be borne in mind in formulating European assessments of, and advice on, the U.S. external position.

30. Third, in the energy area, I again acknowledge the large responsibility of the United States for getting its own energy situation under control and reducing its claims on world oil supplies. We intend to meet this responsibility. At the same time, the U.S. has expended a great deal of effort to encourage OPEC price moderation—and maintenance and expansion of production levels. This is vital to all oil importing countries certainly in Europe's interest as much as our own. But in significant respects, the U.S. has been alone in this effort. We hope that Europe will soon agree to country-specific targets which limit oil imports in 1980, by adopting positive mechanisms to this end and by resisting the temptation to dilute this effort. And we are concerned over reports that some European governments have sought special preference among producing countries for assurance of their own oil supplies, with little apparent concern for the global problem. From OPEC's perspective, they are dealing with an uncoordinated and weak group of customers.

31. Fourth, Europe has been unwilling to do in the areas of trade finance and investment what it was willing to do in the area of trade—limit subsidies. I think there is little intellectual disagreement with the U.S. view that subsidized export credit competition is wasteful and costly to all of us, and benefits none of us in the end. But the consensus rule in the EC has frustrated progress in agreeing on limitations on competition on export credits, despite years of effort. And in the case of incentives for international investment, Europe has not even accepted the basic proposition which is unexceptional in our view—that this kind of competition can be just as harmful as in the trade area....

BANKING

U.S. savings banks on the chopping block

"I've seen all my bank's sources of liquidity dry up over the last 48 hours," the president of a medium-sized New Jersey savings and loan institution complained recently. The same predicament faces savings and loans and mutual savings banks across the country.

There are two reasons. One is that interest rates are luring money out of low-interest rate savings deposits. The other is the agreement between Federal Reserve chief Volcker and the major commercial banks to limit credit to consumers, the housing industry, and to the savings banks themselves.

Mortgage money has nearly dried up since Oct. 6. Housing economists, such as Kenneth Biederman of the Federal Home Loan Bank Board, which regulates the S&Ls, are now predicting that new housing starts will drop to 1.4 million in 1980 from 1978's 2 million unit rate.

As it stands now, Volcker's tight money regime is going to be the trig-

ger for a sweeping reorganization and consolidation of the nation's savings bank industry.

First, the upward ratchet of rates since Oct. 6 has sparked a wave of what bankers call disintermediation—the flight of funds out of passbook savings accounts which pay 5.25 percent into small-denomination Treasury securities, participations in large commercial bank deposits, and an endless variety of short-term investments which promise yields of 12 percent and higher.

The only way that savings banks have been able to hold on to deposits is to issue their own money market certificates. These are six-month certificates in the sum of \$10,000 which carry an interest rate pegged to the three-month Treasury bill rate. However, these certificates are a very expensive source of money. Last week they paid a 12.65 percent annual rate. On the other side, savings banks are making an average of 8-9 percent of

GOLD

The gold-oil connection

As Dresdner Bank managing director Hans Joachim Schreiber remarked in an interview with the West German weekly Weltwirtswoche in July, the gold price has tended to approximate a 15-fold multiple of the oil price during this period since 1972. The continuing relationship in

price between the two commodities is remarkably close.

The gold-oil price parallel reflects the fact that major Western European governments as well as Arab oil-producing countries have already adopted an *implicit* gold standard. During 1979, Saudi and Kuwaiti quasi-official investors, employing West German and French banks as intermediaries, have directed large portions of their new petro-

dollar earnings into gold in order to protect their holdings from inflation in the dollar sector. The launching of the European Monetary System (EMS), with its gold reserve pooling mechanism, in March of this year was an important first step by European governments towards fullfledged gold remonetization

New antigold campaign

What these developments mean is that the gold price is not likely to be stabilized until dollar sector inflation is gotten under control and the present upward spiral in oil spot market prices, rigged by multinational oil companies, is brought to a halt. U.S. inflation can be squelched without a depression if governments agree to use gold-back bonds to mop up the volatile Eurodollar market and put these funds to work in long-term productive investments in the developing sector.

their assets on fixed rate mortgages and other investments.

This combined earnings squeeze and loss of deposits will be fatal for many of the nation's savings banks, say well-placed bank analysts. Government officials meanwhile are working out the contingency plans for possible savings bank failures.

Coup de Grace

According to a report in the Wall Street Journal Oct. 25, the Federal Deposit Insurance Corporation. which was created after the 1931 bank holidays to insure deposits, is putting in place the procedures for merging savings banks into other savings or commercial banks. The FDIC is working out the details for allowing commercial banks to acquire savings banks, which are allowed to offer one quarter of a percentage point more on savings deposits than commercial banks are.

A bill that will pull the plug on the

nation's savings banks is now before Congress. Debate opened up on the Depository Institutions Deregulation Act in Congress on Oct. 23. The bill is sponsored by Sen. William Proxmire and supported by Federal Reserve Chairman Volcker.

The bill would knock out Regulation Q, which would eliminate federal interest ceilings on deposits. The elimination of Regulation Q-enacted in 1933 to stop banking rate wars—combined with a new measure proposed by Rep. Henry Reuss to allow commercial banks to give interest on checking accounts, essentially wipes out every federal guarantee to the existence of savings and loans associations.

The overall objective of the banking legislation was passionately protested on the floor of the Senate by Sen. Robert Morgan of North Carolina. "I honestly think this bill should be entitled the 'Depository Institutions Abolition Act,' because I believe that the ramifications of this bill are so far-reaching that the effects could very well be the destruction of some of the finest financial institutions that have ever served this nation," Morgan charged. The result of these measures he said, will be the homogenization of the U.S. banking structure. "If this bill is passed, those savings and loans that are able to survive—and I predict there will be a very small percentage that will survive in their present form—will be engaged more in consumer loans than any other type of investment. Where are the young couples going to go to get a loan to build a home?"

—Lydia Schulman

The reader will note that during the 1975-76 period the gold-oil price relationship did not hold up. Between the beginning of 1975 and mid-1976, the gold price fell from its previous high of nearly \$200 an ounce to close to \$100, reflecting worldwide recession and a concerted International Monetary Fund-U.S. Treasury effort to demonetize gold by selling large amounts to the public. In 1979-1980, Treasury sales are unlikely to have this effect because of the existence of the EMS and the French and West German governments' political commitment to return gold to a central role in the world monetary system.

On Thursday, November 1, the U.S. Treasury plans to auction 1.25 million ounces of gold as part of its new strategy of selling "arbitrary amounts at arbitrary times." Previously, the Treasury had been auctioning only 750,000 ounces at regular monthly auctions. Although Thursday's sale may have a momentary depressing effect on the market, this is not expected to last for the above reasons.

Admittedly, certain pro-Anglo-American elements in the West German government have recently attempted to erode Chancellor Schmidt's support for gold remonetization. On Oct. 30, the Journal of Commerce reported that West Germany Treasury Undersecretary Manfred Lahnstein was opposed to coordinated central bank efforts to stabilize the gold price "because that would tend to remonetize gold." Lahnstein further reported that German bank regulators were "cracking down" on German banks which have purchased gold for their own accounts. It is expected that the regulatory authorities will issue a directive shortly requiring these banks to include their gold holdings in their open foreign-exchange position

which by law cannot exceed 30 percent of a given bank's stock capital plus reserves.

This move is clearly intended to intimidate the Dresdner Bank, which has repeatedly embarrassed the U.S. Treasury by purchasing large amounts of gold at the public auctions. But a Dresdner spokesman in New York stated that the new regulatory requirement will have no effect on the bank since Dresdner has already functioned on the basis of the 30 percent guideline for the last several months. Lahnstein's outburst nevertheless indicates a deepening factionalization within the West German government which Schmidt will have to resolve in the coming weeks.

-Alice Roth

FOREIGN EXCHANGE

Yen's weakness rebounds against Premier Ohira

The yen could fall as low as 260 per dollar by the end of January. This is the "unofficial" estimate by Japanese bankers who watched it tumble from 222, just prior to the Volcker shock, to 237 at the end of October. Neither currency interventions by the Bank of Japan (BOJ)—up to \$300 million on Oct. 30—nor an imminent 1 percent discount rate hike to 6.25 percent are likely to stem the tide.

The yen is being buffeted so wildly because structurally and politically Japan is much more vulnerable than Europe to the combined effects of credit and oil shocks. A recent Asahi Evening News article noted this well known vulnerability, then complained that Japan lacks the protection given Europe by the European Monetary System.

Three years of Carter administration trade and currency warfare have finally taken their toll on the export capabilities of Japan.

With an all-time record \$1.4 billion current account deficit in September, Japan's deficit for the first nine months of this year totalled \$5.0 billion. This is an amazing turnaround from 1978's \$16 billion surplus. Moreover, the physical volume of Japan's exports fell 3 to 4 percent this year, the first decline since the postwar recovery.

Japan's U.S. markets were decimated by protectionism, and Japan

failed to make up the difference in Third World markets.

Under the previous Prime Minister Takeo Fukuda, Japan issued longterm low-interest yen and dollar loans to developing countries for plant and machinery purchases. Under Washington's pressure, Prime Minister Ohira forced an end to this policy.

The trade problem has wreaked havoc on the internal finances of this export-dependent nation. When the Carter administration took power the yen was at 290. As Treasury Secretary Blumenthal's dollar depreciation effort took hold, speculators propelled a rise to 180 by November 1978—and a consequent dropoff of export prospects.

Steady oil price rises are sending the yen most of the way back down but without a recovery of the lost markets, and with a much higher import bill.

Combined with the huge payments deficit, the yen plummet meant an 18 percent annual rate of

DOMESTIC CREDIT

Reuss wants to close the discount window

The following are excerpts of House Banking Committee chairman Henry Reuss's (D-Wisc.) proposal on credit policy, which exemplifies the degree of "liberal" support for Fed Chairman Volcker's credit rationing. The proposal came during an Oct. 29 session of the Banking Committee, in an exchange with Fred Schwartz, Vice-Chairman of the Federal Reserve.

Reuss: I have applauded the actions of Oct. 6 by the Fed and continue to applaud them. ... The discount rate is now at 12 percent; Citibank and other lenders are now lending at a prime rate of 15 1/4 percent. My question is, should the discount rate be increased: Doesn't it have a life of

its own as a symbol to the world? What I am saying is that you should stop vitiating your overall monetary strategy and close the discount window except wherever there is a real liquidity problem. Having rid yourselves of the federal funds fetish, why not rid yourselves of the discount rate fiasco?

Schwartz: We are looking at the whole question of the discount rate, including your suggestion of a floating discount rate.

Reuss: No, I am talking about no discount rate at all; close down the window.

Schwartz: Well, that is a pretty stringent policy, the effect might be an even tighter policy than we would like. The discount window is a sort of a safety valve.

inflation during the last six months. Inflation itself feeds a further fall in the ven, thus more inflation.

Japan is simultaneously the advanced nation most dependent on oil imports and the one least protected against arbitrary price hikes and outright cutoffs. According to the Ministry of International Trade and Industry, Japan will experience an absolute shortage of oil this winter, owing to cutoffs of so-called third party contracts by the Seven Sisters and other oil firms; the cutoff is expected to affect up to 30 percent of Japan's consumption. Direct deals with oil producing nations fill part of the gap. But 15 percent of oil consumption is now imported at the exorbitant \$38-45 spot market prices, and the makeup has been insufficient.

Ohira's support for Washington's Camp David Mideast policy and his government's anti-Mexico moves have severely crimped Japan's ability to get sufficient direct deals from OPEC and Mexico respectively. Meanwhile, oil and other commodity price hikes comprised the brunt of the increase in Japan's import bill in this year's July through September period of 60 percent over July-September 1978. Further oil price rises will hit the yen.

Ohira on the line

Washington is trying to catch up with the political repercussions of Japan's predicament. Paul Volcker, Cyrus Vance, et al. may wake up one day very soon to find that their favorite, Masayoshi Ohira, is no longer Prime Minister of Japan. Many business leaders resent Ohira as, at least, unable to protect Japan from Carter's hostile actions, and at worst, liable to go along with Washington policies, as witness his tax hike proposal and his anti-OPEC stance.

The chairman of the Keidanren business federation, Toshio Doko, called upon Ohira to resign last week, seizing the occasion of the election setback of the ruling Liberal Democratic Party. Keidanren also opposed the interest rate hike the Bank of Japan is about to impose. A look at the dim prospects for the economy makes many business leaders yearn for the days of Ohira's predecessor, Takeo Fukuda. The campaign of Fukuda and his allies to remove Ohira has gained momentum in business circles, and at this point. Ohira's imminent demise is widely recognized as a distinct possibility.

Whether a new government will try to revive and expand low-cost export lending will then be the question. Otherwise Japan will continue to face its high yen/low exports, low yen/high inflation bind—and the threat that spreading U.S. depression will wreck world markets.

—Richard Katz

Reuss: How much lending has gone on through the discount window since the announcement of the Oct. 6 policy?

Schwartz: About three times as much as normal.

Reuss: Well, I must say, that's a hell of a way to run monetary policy. You bear down on the open market, and let anyone come in through the back door to the discount window.

The following are selections from the testimony of several noted liberal economists before the Joint Economic Committee of Congress Oct. 29:

John K. Galbraith: We are relying too much on monetary policy and administration pronouncements. ... The only safe approach is to use all

the instruments of the government against inflation; hold in bank lending, cut the budget (I mean, of course, areas such as defense and unnecessary public works), heavy taxation on luxury goods, a tight control on the wage-price spiral and recognition that voluntary measures are not working, and bring down energy prices. We can have no talk of a tax cut.

Alan Greenspan: The danger today is not of a repeat of the events of 1929 from a deflationary standpoint, but of excessively inflationary policies rushed into place in response to a credit crunch.

Walter Heller (in response to a question from Henry Reuss: Do you agree that West Germany must adopt tighter fiscal and easier monetary policies?) ... I would. The escalation in West German interest rates hurt the dollar. The dollar problem is a deutschemark problem. We have a stronger deutschemark today at the expense of the world economy. This interest rate game is making the world suffer. And West Germany suffers as well. In the past five years, West Germany has had a smaller growth rate and a higher unemployment rate than the rest of the OECD. (Mr. Reuss replied: "I am glad to hear you say that. At least with our names, we can't be considered anti-German.")

AGRICULTURE

It costs more and more to transport food

Seven years ago, huge U.S.S.R. purchases of American grain was a pretext for speculators to rush the prices of farm commodity futures through the ceiling, and with them the cost of everything from meat to milk.

This month, however, the otherwise volatile commodity markets barely blinked at the announcement that the Soviets will purchase up to 25 million tons of grain over the next year. That's because a record corn crop of over 120 million tons is being harvested. When added to a record wheat crop plus mammoth amounts of grain in storage, this gives the U.S. an unprecedented surplus of grain.

But food prices are still spiraling, and the rise could escalate sharply not because of the Soviet purchases, but because of a combination of transportation bottlenecks and speculative operations that are driving up costs and slowing delivery time.

The acute rail car shortage, aggravated by the undercapitalization and lack of maintenance by the railroad industry, is acknowledged as a major factor in the price hikes. Shippers and retailers alike pay more for poorer service. The costs are then passed on to the consumer at the supermarket. Now a number of deregulation-type proposals are in the hopper which will make things worse.

With the active support of the Department of Transportation, the Interstate Commerce Commission (ICC) has taken steps to grant the railroads wider latitude in fixing rates for grain shipments and to exempt further regulation of rail ship-

ments of grain and grain products. Recent proposals center on the establishment of a "two-tier" pricing system for grain and grain products. ICC policy already allows the railroads to set different rates for domestic and export grain shipments, a kind of precedent.

The "two-tier" proposals will allow shippers to sign a freight contract in advance at a specified rate, or wait to take a gamble on the spot market where rates fluctuate wildly. Giving the railroads the right to raise rates during peak periods—the effect of the spot market operation—is put forward by both the ICC and the Department of Transportation as a means to meet shipper needs more efficiency in the crunch.

But given the state of the rails and the grain-trade related boost in demand, it is likely that the "peak periods" will be virtually continuous throughout the year. The proposed spot market would then end up largely determining rates overall—as in the Rotterdam oil market—and prices would soar.

The Waterways problem

What is in store for rail rates under this proposal can be seen in the barge-freight spot market set up a year ago by the St. Louis Merchants Exchange, primarily a grain market. The barge-freight spot market is the "second tier" of what is in effect a two-tier barge freight rate system. Barge grain shipment rates are unregulated, but most barges are contracted a year in advance at set rates. Free capacity is bid for on the St. Louis spot market, which, according to its managers, will jump in importance in the coming period because of export demand. Based on multiples of barge tariffs set by the Waterways Freight Bureau in the early 1970s, prices are even now four times over the base rates!

The number-one factor in the enormous barge rate increases is the Mississippi River traffic jam slowing hundred of boats at Lock and Dam 26 at Alton, Illinois, the gateway to the Gulf ports. At least 25 percent of exported U.S. grain must pass through this point before reaching the Gulf. So far, environementalists and railroads have prevented a reconstruction of the locks which could double barge capacity and cheapen rates considerably.

—Stephen Parsons and Susar Cohen

What you should know about gold

Executive Intelligence Review has put together a 40-page special report to give you all the background information you need to put this method to work in planning your investment strategy. "How does the European Monetary System work and how has it remonetized gold?" "What does gold remonetization mean for the U.S. economy and the dollar?"

"How do the European gold proposals differ from the pre-1914 gold standard?" All these questions and more are answered in an easy-to-read question and answer format. The report also includes important policy statements by European officials not generally available in the U.S. press.

To receive your copy of "Gold Returns to the Monetary System," please send \$50.00 by check or money order to Executive Intelligence Review, Fifth Floor, 304 W. 58 Street, New York, New York 10019.

Chrysler's 'final solution' is proposed

At deadline, Nov. 1, Treasury Secretary G. William Miller had just announced that the Carter administration will introduce legislation authorizing 1.5 billion dollars in federal loan guarantees for the Chrysler Corporation. Miller said that even if Congress approves the bill, Chrysler must fulfill the following conditions: 1) existing creditors (of whom Manufacturers Hanover is the largest, and which prominently include Salomon Brothers, the investment bank) must maintain their position, 2) Chrysler must raise \$1.5 billion in new,

U.S. ECONOMY

unguaranteed funds through a combination of "asset disposition," "financing contributions," and "other concessions from persons with an economic stake" in the company. 3) Chrysler will be required to present a satisfactory four-year operating plan demonstrating that by December 31, 1983 it can function without federal assistance.

The plan was worked out the day before by a group including Vice-President Mondale, White House staffer Stuart Eisenstat, Labor Secretary Ray Marshall, and United Auto Workers president Douglas Fraser. The proposal goes far beyond last month's agreement by union contract negotiators to cut employee wages and benefits. If voted through, it would make the nation's tenth-largest industrial concern into a pilot case for government-forced liquidation and government-laborindustry corporatist management, far beyond anything General Johnson of the National Recovery Administration, a vocal admirer of Mussolini, attempted during the early stages of the New Deal.

The comparison with the 1930s is not a literary ornament. Officials at the highest level of the U.S. auto industry have issued confidential memoranda expressing their fears that a major contraction of the auto industry, resulting in 300,000 layoffs, will occur by no later than January. Not only Chrysler, but Ford is in serious trouble, and will effect an 18 percent cutback in its overall budget by Dec. 15. A Ford management "blue letter" warns top executives: "Brace yourselves, this will be rougher than the 1957 recession."

These predictions, not yet made public, result from evaluations of what will happen to the auto industry as a result of the Oct. 6 actions taken by Federal Reserve Chairman Paul Volcker. But if such catastrophic contraction occurs in auto in the December-January period as anticipated, it will cause concomitant large-scale effects in the principal auto feeder industries—steel, rubber, glass, etc.—by not later than the March-April period.

The industry's predictions are solidly based, assuming Volcker's measures are not reversed. The predictions are in accord, in both their severity and timing, with forecasts derived from a "spectral analysis" of the U.S. economy utilizing the LaRouche "Riemannian" econometric model. (See COVER story). The spectral analysis, which divides the economy into 25 sectors and assigns each a specific "frequency" according to its relative liquidity, obtained results for the auto sector virtually identical to the predictions now being secretly made by the industry's management.

The Volcker credit squeeze hit the auto industry right after one of the worst performances for a quarter in auto's history. Profits took a nosedive in the third quarter as all three major companies posted substantial operating deficits. Notoriously, Chrysler Corporation registered a record \$460 million loss, the second largest posted-loss in the history of the U.S. economy, while after-tax profits at General Motors and Ford tumbled 96 and 66 percent respectively. For both Ford and GM, large tax credits masked heavy operating deficits, which are sure to increase this quarter as Volcker's crunch grinds sales further down. GM's loss was the first in nine years.

Chrysler is heading toward the highest full-year loss in U.S. corporate history—over \$1 billion. Its third quarter sales dropped 15 percent in dollar terms, from \$2.9 billion last year to \$2.48 billion. If a 13 percent inflation rate is taken into account, sales actually dropped nearly 25 percent. Chrysler is predicting a \$327 million net loss for the fourth quarter—without figuring in the effects of the Federal Reserve's moves.

While its pleas for federal government loan guarantees are meeting resistance in Congress, Chrysler's losses are rapidly consuming its working capital, which was down to \$356 million at the end of September as compared with \$800 million last June. Further erosion below \$300 million will begin to trigger credit line shutoffs.

Major creditors are in fact pulling in their horns. On Oct. 30 Manufacturers Hanover Trust Chairman John McGillicuddy told a House Banking subcommittee that new bank loans to Chrysler without government guarantees are "not feasible for the banking community," citing the fact that federal banking regulators have

labeled loans to Chrysler "classified." Chrysler, meanwhile, has been shut out of the credit markets, and its \$400 million in suppliers-credits from Mitsubishi for marketing its high-sales models was recently withdrawn.

"Big MAC" and corporatism

This situation has put Chrysler in line to become a test case for the managed shut-down of all basic industry. Rep. Donald Riegle (D-Mich.) has submitted a bill mandating the establishment of an oversight board, modeled on New York City's "Big MAC," to de facto run Chrysler if the company is to get any federal financial aid. The board would be headed by Treasury Secretary G. William Miller, whose corporate career has been spent liquidating "unprofitable" divisions and corporations.

There is no evidence that the Riegle bill, which would give Miller the power to suspend federal loan guarantees for the company's debt, would rescue Chrysler any more than the varius financial control bodies have rescued New York City. In any case, whether or not Miller is formally placed on an "emergency financial control board" is of tertiary interest, as the Carter administration has now spelled out its determination to make Chrysler raise cash by selling off its most profitable assets. This will mean divestiture of the rest of their Argentinian facilities, and of their Mexican plants—Henry Reuss has insisted that the company sell the latter at the cost of construction. These are Chrysler's most modern, most productive branches.

It should be noted that other legislative proposals on the table for aid to Chrysler would at best expand the amount and term of loan guarantees without providing either the actual credit or the leadership Chrysler needs to regain its pre-World War II status as a technological frontrunner. Chrysler would remain on the edge of bankruptcy.

The lineup of the House Banking Subcommittee on the Chrysler question remains in doubt. House Banking Committee Chairman Henry Reuss has favored a stripdown of the company, as a precondition for aid, wile his Senate counterpart, William Proxmire, opposes federal aid altogether. Organizations ranging from GM and the National Association of Manufactures (NAM) to Ralph Nader's Congress Watch are heavily lobbying to let Chrysler go under. GM Chairman Thomas Aquinas Murphy told the Washington Post Oct. 23 that Chrysler must remember "the profit and loss system" in "a risk business," and he was substantially echoed by the NAM. Congress Watch attorney Howard Symons told the House subcommittee that "the essence of entrepreneurial, risk-taking, and innovative capitalism is that companies thrive and fail."

The UAW role

Meanwhile, according to the terms of the new Chrysler contract announced Oct. 24, the UAW has agreed to forego the 30 percent wage increase over three years granted to Ford and GM workers. The contract also "defers" company payments into the union pension fund, eliminates portions of already-won increases for Chrysler pensioners, and abolishes several paid days off. In return, Doug Fraser will join the board of directors.

Under the circumstances, this is already a major step toward what economists define as corporatism. In a healthy economy, labor-management decisionmaking, as in Western Europe, or informal cooperation, as between Teamsters and trucking operators, can help achieve productivity and capital formation gains, resulting in expanded incomes all around. Corporatism, as introduced in Italy in the 1920s and to a milder extent in the United States under the NRA, mandates "coparticipation" by employees, "consumers" and industrialists to reduce output, investments, wages and working conditions. In 1979, this is supposed to make companies and regions "competitive," while Volcker and Miller's credit policies end any semblance of a "free economy."

—Steve Parsons and Susan Johnson

How an antigold policy emerged in the U.S.

How did it happen that the United States, the world's single largest government holder of gold (excluding the Soviet Union) committed itself to a policy which would eliminate gold from the world monetary system? Official American policy on this question can only be explained by the persistent influence which gold-short Britain, a country notorious for its poor industrial performance, has exercised over U.S. policymakers.

To understand how the dollar's link to gold was severed, one must go back to the fall of 1960, when British Treasury officials began to lobby at international financial gatherings for the gradual phaseout of the U.S. dollar and gold as the world's primary reserve assets and their replacement by a new "stateless" international unit under the auspices of the International Monetary Fund. The proposed unit later became known as the Special Drawing Right (SDR), or "paper gold".

Although President John Kennedy's Treasury Secretary C. Douglas Dillon supported efforts to expand the IMF's credit-generating capacity—IMF funds at that point were used primarily to prop up the perpetually crisis-ridden pound sterling— he balked at measures that would undermine the dollar's role. Henry Fowler, the Goldman Sachs investment banker who succeeded Dillon as Lyndon Johnson's Treasury Secretary in 1965, had no such reservations. According to author William Wiseley, Fowler convinced Johnson that the creation of the SDR was necessary in order to finance the expanding Vietnam war, which was already deepening the U.S. balance of payments deficit. By flooding the world with new liquidity, Fowler argued, the U.S. could continue to run up deficits without being forced to pay the piper.

De Gaulle's offer to the U.S.

At his famous February 4, 1965 press conference at the Elysée ballroom, French President Charles de Gaulle initiated a campaign which was to put the antigold Anglo-American faction on the defensive for the next three years. Sounding many of the same themes which have dominated discussions during the past year on the European Monetary System, de Gaulle rejected U.S. efforts to install a European theater nuclear force known as the "Multilateral Force" (MLF). "Europe, the mother of civilization, must establish herself from the Atlantic to the Urals," he stated.

De Gaulle then announced his commitment to main-

taining gold as the cornerstone of the international monetary system and offered to work closely with the U.S. and other countries in undertaking the difficult task of restoring world credit: "An end to the Gold Exchange Standard without severe shock, the restoration of the Gold Standard, as well as the complementary and transitional measures which will be indispensable and, in particular, the negotiation of international credit on this new basis—all this must be examined among countries."

Who Controls World Gold Reserves?— 1960 and 1979

	Gold reserves millions of ounces end-1960	Gold reserves millions of ounces August 1979
World total	1,149.6	1,133.0
International Monetary Fund	69.6	114.5
European Monetary System members*	273.2	403.6
Belgium	33.4	42.6
Denmark	3.1	2.0
France	46.9	102.0
Ireland	0.5	0.5
Italy	63.0	83.1
Netherlands	41.5	54.8
West Germany	84.9	118.6
United States	508.7	266.7
United Kingdom	80.0	22.9
Switzerland	62.4	83.3
Japan	7.1	24.0

^{*} Includes both gold held by individual countries and gold deposited with European Monetary Cooperation Fund (FECOM). Although Britain has belatedly added 20 percent of its gold reserves to the FECOM pool, the U.K. is not a member of the EMS and its reserves are not included in this total.

Source: IMF International Financial Statistics.

To show the Johnson administration he meant business, de Gaulle instructed the Bank of France to make periodic calls on the U.S. Treasury's gold window, and even demanded that France's gold be physically shipped to Paris rather than stored in the Federal Reserve's New York bank vaults. De Gaulle's Finance Minister Michel Debrè, meanwhile broke up every international meeting called to discuss Fowler's plan to create the SDR by insisting that only a gold-based monetary system was acceptable to France.

Although the U.S. media characterized de Gaulle's campaign as "anti-American" and "antidollar," the truth was that de Gaulle offered the U.S. an opportunity to reverse the falloff in fixed-capital replacement and investment which had already begun. In tandem with his offer of Paris as a negotiating site for speeding up an end to the Vietnam war, de Gaulle also offered a "way-out" on the monetary front. A one-time revaluation of gold against the dollar, as de Gaulle proposed, would have strengthened the dollar, since the U.S. still had enormous gold reserves. This would scarcely have solved all the U.S.'s economic problems but it might have provided a breathing space within which the administration might have taken steps to revive the U.S. productive base, possibly acting on de Gaulle's earlier suggestion of East-West collaboration to industrialize the postcolonial sector. Johnson and, later, Nixon were to take a very different road, however.

The 1968 Gold Pool collapse

On November 25, 1967, the severest sterling crisis of the postwar period culminated in a hefty devaluation of the British currency. Hardly had the antisterling speculation subsided when Fowler's public remark that the dollar was now "in the front line" provoked a wave of dollar dumping and a bidding-up of gold. Fowler's statement was only one example of how "bumbling" U.S. officials managed to parlay a little investor nervousness into a full-blown dollar panic. The panic resulted in the March 1968 dismantling of the London Gold Pool—an initial step toward eliminating dollar convertibility into gold.

That there was a method in American officials' madness is demonstrated by the fact that, as early as October 1967, the New York Council on Foreign Relations' Foreign Affairs magazine featured an article which outlined in advance the scenario under which the U.S. was to abandon gold. The article in question, "Gold

and the Dollar," was written by Chase Manhattan economists William F. Butler and John V. Deaver. It instructed the U.S. government to play a game of "international chicken" with its European allies. If France continued to insist on a gold revaluation, then the U.S. should threaten to "go crazy" and terminate dollar-gold convertibility.

But to make a credible case, official U.S. statements must clearly indicate that we will never support a price higher than \$35 an ounce even if other central banks should use their dollars to buy all the gold in the U.S. Treasury. And, to make this credible, it is necessary to register a preference for the consequences of such a policy over the consequences of a gold-price rise. This does not involve threatening our European neighbors. It does involve spelling out our response to a threat to the international monetary framework in the form of an assault on our gold stocks. If that response were to be a suspension of the privilege now granted by the U.S. Treasury to buy and sell gold, with future sales and purchases of gold made only at the discretion of the Treasury and at the fixed price of \$35 an ounce, then the end of the trail would be bleak indeed for all nations, but especially for those with large international reserves, including gold.

Although Assistant Treasury Secretary Robert Roosa accused France of "mischiefmaking" in a Dec. 4, 1967 Newsweek interview, the gold crisis was not of French origin. Beginning in November, the French government had suspended its policy of converting its surplus dollar holdings into gold. True, Le Monde columnist Paul Fabra had just leaked word that France had withdrawn from the Gold Pool as of June 1967, but Fabra admitted that he often drew on sources other than the French government. France had quietly pulled out of the London Gold Pool, an arrangement in which the 8ank of England conducted intervention in the gold market on behalf of the other central banks, because the Bank of France was losing gold reserves in an effort to maintain what it deemed an indefensibly low official gold price.

Meanwhile, London and New York turned the gold rush to their own advantage. In early March 1968, Senator Jacob Javits (R-N.Y.) called on the U.S. government to stop selling gold for dollars. Then, on March 17, with world markets in an uproar, an emergency central bankers' meeting was called where U.S. officials rammed through an agreement to establish a "two-tier" gold market. The central banks would no longer attempt to regulate private gold trading and, while the official gold price would be maintained, central bank purchases were to be discouraged. France alone abstained from this agreement.

Another coup took place at the March 29-30 Stockholm meeting of the Group of Ten finance ministry officials, where every industrialized country, excepting France, agreed on the creation of the SDR. In an April 2 memo to the Federal Reserve Open Market Committee (FOMC), Robert Solomon, a high-ranking Federal official who helped frame the Washington gold agreement, exulted "That pronouncement, together with the Stockholm agreement on Special Drawing Rights, can be interpreted as constituting a demonetization of gold at the margin." (Solomon is now a senior economist with the Brookings Institution.) The May 1968 student uprising then paralyzed the French economy and so weakened de Gaulle that, from then on, the French government would merely argue the terms on which SDRs would be created.

August 1971

On Aug. 15, 1971, President Nixon stunned the world with his announcement that the U.S. would float the dollar and terminate the U.S. currency's convertibility into gold. Although the experience of wage-price controls (another feature of the August package,) has etched this event into the consciousness of Americans, few people are aware of the developments immediately preceding Nixon's decision.

First, on Aug. 6, Henry Reuss, a Wisconsin Democrat who now heads the House Banking Committee, issued a subcommittee report recommending that the U.S. abandon the dollar's linkage to gold. Reuss's report helped spur market speculators. The coup de grace, however, was delivered by the Bank of England, which demanded on Aug. 13, that the Fed immediately convert \$3 billion in dollar holdings into gold!

According to a January 1972 Fortune article, "How the U.S. Got on the Road to a Controlled Economy," Federal Reserve Chairman Paul Volcker, then Undersecretary for Monetary Affairs in the Treasury department, was the real mastermind behind the Aug. 15 package not Treasury Secretary John Connally. Fortune reports that from July 10 on "a small Treasury group under Volcker worked steadily on the ingredients of the monetary package that was ultimately announced." Even Connally's "get-tough" international trade policy was based on a special briefing which Volcker, a former Chase Manhattan official, prepared for him in February when Connally came into office. Connally's "bully boy" image may have been his own idea, but he was following, in the main, a Volcker script.

In his Before the Fall, William Safire provides a transcript of the White House staff meeting at Camp David on Aug. 15 where Nixon made the fatal decision to abandon gold. Connally, in a fit of hysteria, insists that Britain's demand for gold necessitates closure of the gold window because "anybody can topple us." Volcker, meanwhile, calmly explains how gold demonetization can be used as a club to force European and Japanese revaluations. Federal Reserve Chairman Arthur Burns cautions about the effects of a U.S. gold break on American relations with continental Europe, but in the end, the Volcker-Connally economic warfare strategy holds sway:

Connally: What's our immediate problem? We are meeting here because we are in trouble overseas. The British came in today to ask us to cover \$3 billion, all their dollar reserves. Anybody can topple us—anytime they want—we have left ourselves completely exposed. There is no political risk—Reuss wants you to do it. . . .

Burns: Yes, this is widely expected. But all the other countries know we have never acted against them. The good will—

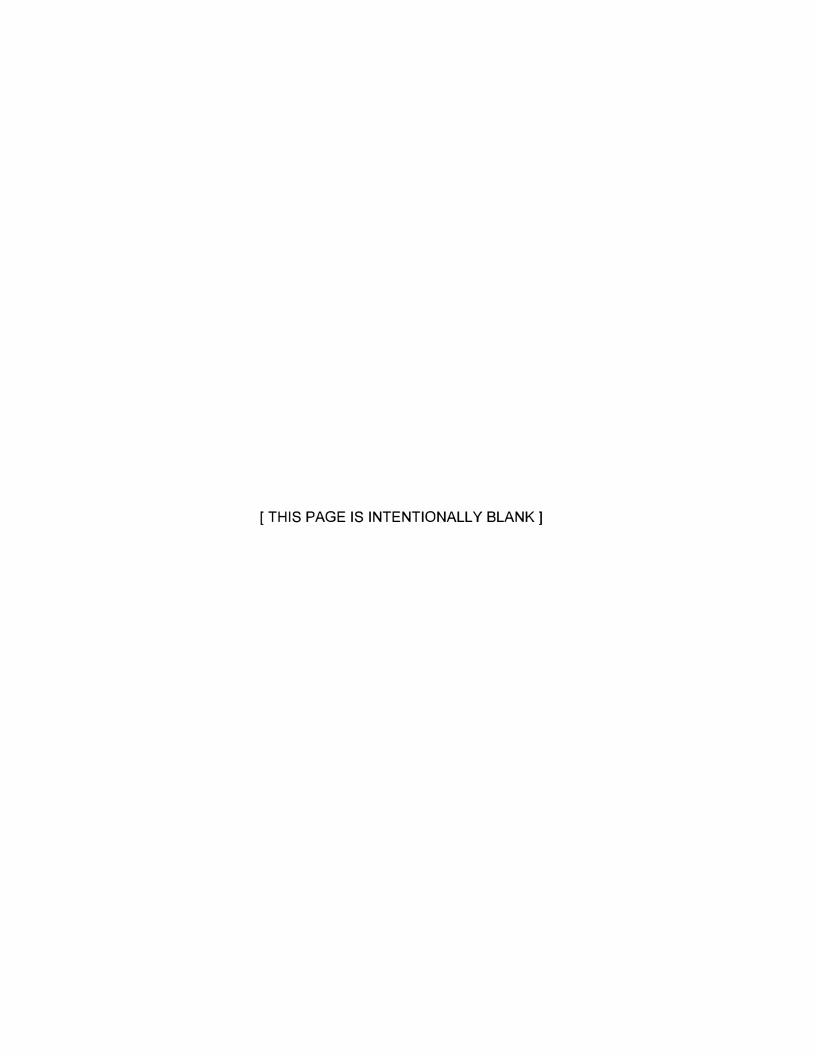
Connally: We'll go broke getting their good will.

Volcker: I hate to do this, to close the window. All my life I have defended exchange rates, but I think it is needed.

Connally: So the other countries don't like it. So what?

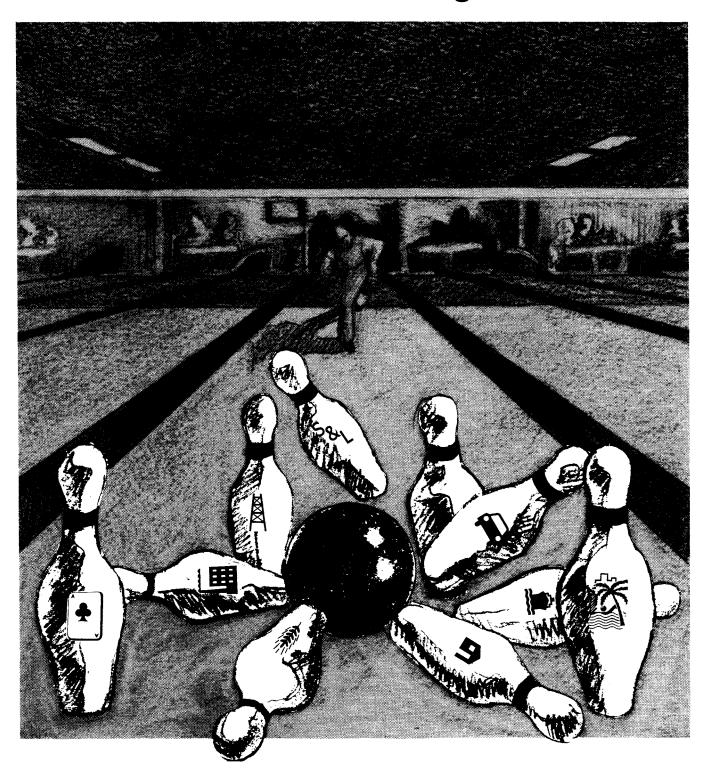
Volcker: But don't let's close the window and sit—let's get other governments to negotiate new rates.

-Alice Roth



DEPRESSION

Who will Volcker bring down?



Exclusive: Secret auto memo warns of 300,000 layoffs by Christmas

A secret policy memorandum issued by chairmen of the nation's auto corporations—yet to be released—warns the industry's top-most management to expect a 20 percent decrease in auto production by no later than December. The memorandum, called a "blue letter," tells corporate executives to "brace yourselves." The collapse in the auto industry will produce 300,000 layoffs by December or absolutely no later than January.

The memorandum further reveals that by no later than April the effects of the collapse of auto will bring about similar devastation in the feeder industries of steel, glass, and rubber.

This report, which Executive Intelligence Review has authenticated, leaves no question that the depression emerging in the aftermath of Federal Reserve chairman Paul Volcker's Oct. 5 announcement of "fiscal austerity" is on a scale of severity more comparable to the 1929-1931 depression than to any postwar recession. The "blue letter" demonstrates that unless the policies of the Fed chairman are reversed, the United States will be in a depression by Christmas.

In our last issue, the first analysis of the Volcker program using *EIR's* Riemannian model projected an aggregate 15 percent dropoff in the economy's tangible output by the end of 1981, or a trough twice as low as that of 1975.

The Riemannian model was specifically designed to analyze major points of economic discontinuity which conventional economic models utterly fail to address. The model was developed on a proposal from economist Lyndon H. LaRouche, Jr., now a Democratic candidate for President.

The projected cutback in the auto industry—that is, the backbone of the U.S. economy—confirms the model's results. It indicates more: that that aggregate reduction will take place in the first half of the new year. Mack Truck already announced Nov. I new production cutbacks, bringing its overall level to 20 percent lower than two months ago.

Ford announced the same day another 10,000 socalled temporary layoffs, putting the total volume of auto layoffs to date close to 100,000.

The news from Detroit, furthermore, puts the administration's proposed \$1.5 billion in loan guarantees for Chrysler Corporation in a somewhat different light. It is not a bailout of Chrysler. Whether or not Chrysler is able to avoid bankruptcy during the next few months, it is clear that the company will not be producing many automobiles.

The package for Chrysler outlined at a Nov.1 press conference is one sign that the current administration is prepared to let the auto industry go. According to Treasury Secretary G. William Miller, Chrysler employees will have to contribute \$400 billion up front to activate the federal guarantees, in the form of wage postponements and contributions from the union's pension funds. By the end of the year, most of these employees will not be working for the company they helped bail out.

Most large corporations have given Volcker grudging support during the last several weeks, but the ferocity of the collapse now pre-programmed for the next two months is beginning to shake up some corporate headquarters.

Riemannian analysis shows how Volcker's policy will bring down economy

A "spectral analysis" computer-profile of the U.S.

economy this week has shown precisely who has been targetted for bankruptcy by Fed chairman Paul Volcker and his collaborators in the New York and London banking community. The analysis goes sector by industrial sector, examining their performance capabilities under the conditions defined by continuation of the Fed chairman's interest-rate regime.

Aggregately, Volcker's action will rip the guts out of the U.S. industrial economy. Specifically, the computer projection demonstrates the "selective" effects of Volcker's policy, as a matter of sabotage directed at those leading industries essential to the economy's overall economic performance.

Last week, Executive Intelligence Review's computerbased econometric model of the United States economy projected an aggregate 15 percent loss in real output over an eight-quarter, continuous downturn through the end of 1981. Now, that technique has produced results for the different sectors of the economy, based on the 20 Standard Industrial Categories employed by the United States Department of Commerce, plus five additional categories, agriculture, construction, utilities, mining, and transportation.

The first victims of economic murder, the analysis shows, will be auto, construction, and agriculture.

How it was done

To conduct a disaggregated analysis of the United States economy, the model draws on Bernhard Riemann's mathematical discovery, "spectral analysis." Spectral analysis compares the differential behavior of a group of physical sectors with varying susceptibility to a given factor or group of factors. In this case, the factor chosen to measure the effects on the different economic sectors of Volcker's liquidity squeeze was the corporate liquidity ratios as reported by the Federal Trade Commission.

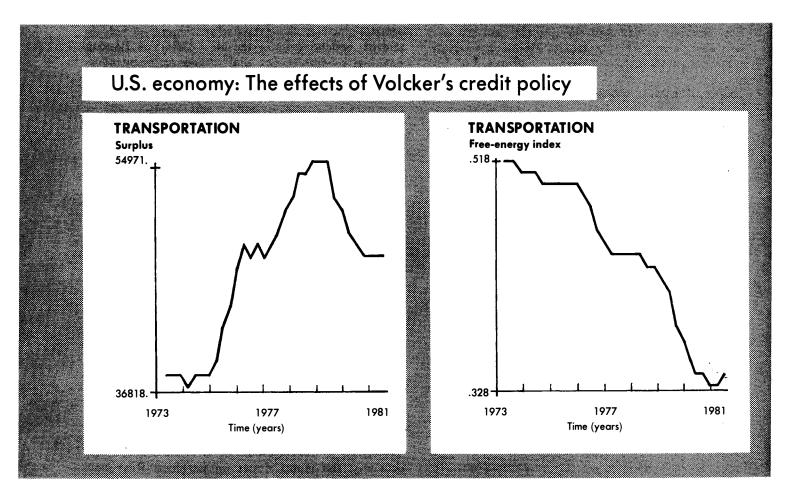
In effect, the 25 sectors of the economy were each assigned a "frequency" on the basis of their relative liquidities; the efficiency of that approach touches upon the fact that Volcker's "anti-inflation" measures are actually hyperinflationary in a special way. The measures force industrial corporations to refinance held-over debt burdens at even higher carrying costs, which will force them to inflate prices to the consumer in order to recoup some portion of the added costs of new money. Because the consumer market is itself contracted by the Fed actions, higher prices lead straight to market collapse. The relative liquidities of industrial sectors, therefore,

determine which sectors go bankrupt sooner, and which later, as force-fed price inflation collapses their markets.

The conclusions

The conclusions of the study are as follows: the industrial core of the economy, particularly the automotive industry, will suffer the most, along with agriculture and construction. Some sectors, particularly consumer sectors subject to relatively inflexible demand, will suffer relatively less, including SIC 21, tobacco and related products, and SIC 22, textiles. Overall, the total economy will drop about 15 percent into the negative by the end of 1981.

These estimates parallel closely the documentary evidence now available. In broad terms, we are speaking of an industrial downturn twice as bad as that of 1974-1975, worse than 1957-1958, and in fact, on the scale of 1929-1931. The projections end with 1981, and show



absolutely no sign of recovery. Therefore, it is entirely possible that the potential downturn is on the order of 1929-1933.

Thus far, there is one critical piece of documentation that these results are highly accurate: a "Blue Letter" circulating among Ford Motor Co. top management, announcing an 18 percent cutback in operations by Dec. 15, and warning that the total volume of auto layoffs will reach about 300,000 by the end of 1979, in a downturn much worse than that of 1957-1958.

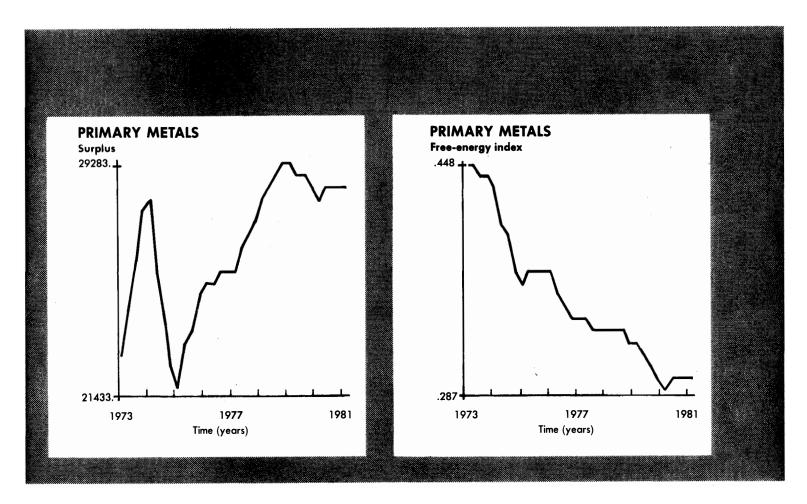
Again, in broad terms, this internal projection from top auto management coincides with the computergenerated prediction that the downturn will be twice as bad as that of 1974-1945.

Origin of the model

The Riemannian economic model was proposed by economist Lyndon H. LaRouche, Jr., and realized by Fusion Energy Foundation scientists Uwe Parpart and Steven Bardwell. Data base for the model was developed by EIR's economics staff. Mr. LaRouche is currently a Democratic candidate for the U.S. Presidency, and has employed the model's results in his campaign statements.

The Riemannian model is fundamentally different from "conventional" econometric models of the Wharton type in two ways.

First, it analyzes the causal relations among the sectors of tangible production, instead of trying to establish correlations between different components of "Gross National Product." Such correlations are notoriously inaccurate even during periods of economic stability, and wholly useless during periods of basic economic change. The Riemannian model eliminates Gross National Product entirely as a measure of economic activity. Instead, the model divides the tangible output of the economy (or economic subsectors) into



variable capital (factor cost), constant capital (user cost), overhead or non-productive costs, and reinvestible surplus. The rates of change of these categories are established by differential equations expressing the ratios among them.

The ratios are the rate of production of surplus, or "free energy" index; the division of investible surplus between factor and user cost, or c and v; and productivity, or the rate of new factor cost inputs required to produce a given volume of surplus.

Nonlinear mathematics

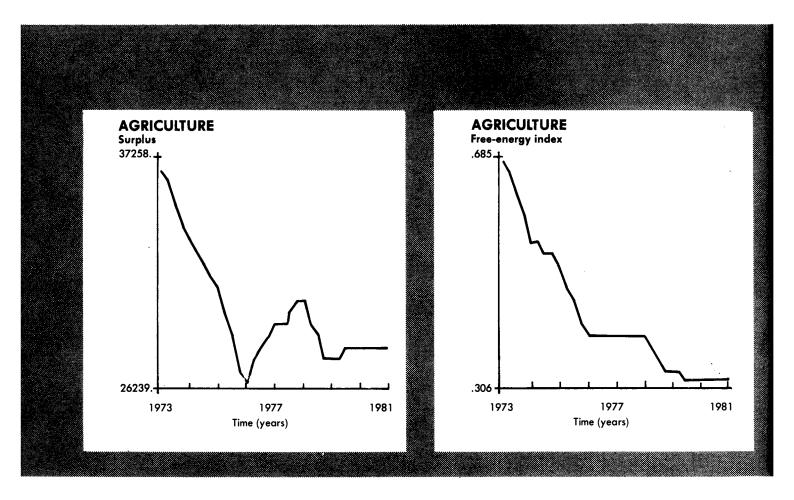
Secondly, the Riemannian model's mathematics—named after Bernhard Riemann—are on an entirely different plane than the glorified arithmetic of the conventional models. The Wharton-type model uses a long series of linear equations to relate constituent parts of GNP to each other; the computer performs a great

deal of simple addition through highly-complex formulae. However, the statistical error present in data, when added up, produces a gross possible error range larger than the tolerable range of meaningful forecast results. Statistically, the conventional projections are meaningless.

The Riemannian model employs partial differential equations relating "geometric features" of the economy to each other, and, in the case of the 25-sector model, simultaneously solves 75 differential equations.

Therefore, the model can examine the behavior of linked differential equations under different conditions, and is designed specifically to indicate major points of economic discontinuity—the subject of Riemann's research into "shock waves" and other physical phenomena.

The "spectral analysis" feature of the multi-sector model permits the user to see the differential impact on each of 25 (or more) sectors of a given global change or group of local changes in economic conditions.



For purposes of the projection, whose results appear in part below, non-deflated Commerce Department data were employed (a projection with deflated data is currently in preparation). As in the earlier-published projection using aggregate data for the U.S. economy, it was assumed that Volcker's credit-tightening measures would result in an 8 percent reduction in surplus available for reinvestment.

The 8 percent reduction was arrived at by examining the current liquidity position of corporations and households, noting that the rate of short-term credit creation during the second and third quarters exceeded the rate of inflation (and the rate of nominal GNP growth) by that amount, indicating a liquidity deficit of 8 percent.

The surplus reduction was then spectrally assigned to 25 sub-sectors of the economy on a proportional basis, using FTC liquidity data. Using the FTC's ratios relating (by standard industrial category) short-term assets to short-term liabilities of corporations, the program assigned greater or lesser shares of the surplus

reduction to each sector in proportion to the sector's deviation from the mean liquidity ratio.

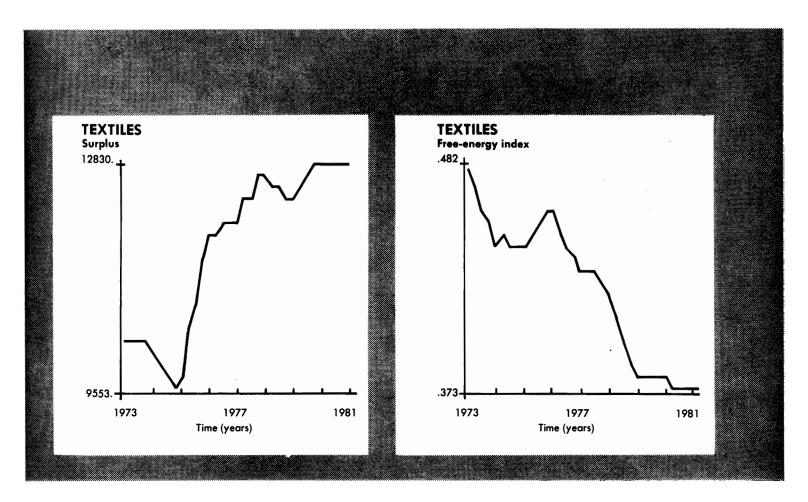
The printout

The graph labelled S', or reinvestible total economic surplus, shows a dropoff from a high of \$179 billion in 1978 to a negative surplus (or net contraction in output) of \$21 billion by the end of 1981. Recalling that these are non-deflated numbers, the total reduction is approximately 15 percent, in terms of real output.

The next graph for the total economy, showing the rate of total surplus creation or s'(c+v), also drops sharply into the negative. Using a slightly different data base, these results are identical to the aggregate results published in EIR's last issue.

Auto

The graphs for the Transportation Equipment sector, which includes the auto industry, show spectacular



dropoff in both total volume of sectoral analysis and, more importantly, rate of surplus creation. (Sectoral surplus for an individual sector will never drop off as quickly as the S', or total economic surplus, because the sectoral surplus is calculated before total economic overhead is calculated. Economic overhead costs are assigned to the aggregate economy and not to individual sectors, for obvious reasons.

Agriculture

Agriculture shows a period of decline through the 1973 recession; a modest improvement in total surplus production (and stabilization of the rate of decline of the free energy ratio) through 1976 to 1978; and a negative growth rate during 1979-1981. This corresponds to agriculture's notoriously poor liquidity position and access to credit in a period of crunch (short of expansion of the Farm Credit System and similar facilities).

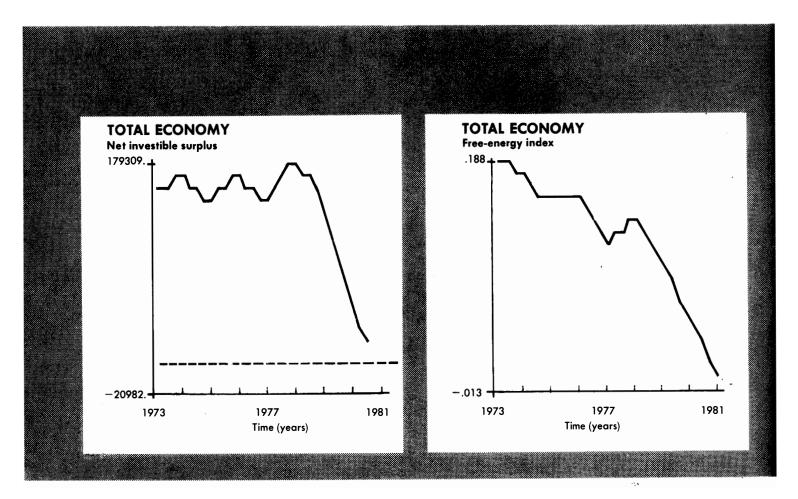
Metals

The graph for metals production shows a drop in the rate of surplus creation by half, from .448 in 1973 to barely .2 at the end of 1980. However, the metals sector indicates a hint of recovery potential, or at least of stabilization at a very low level of activity, by the end of 1981.

Textiles

Textiles go through a recession, in terms of rate of surplus creation, albeit a relatively mild one. In nominal terms, output remains steady, which means a fairly small dropoff in real output. The same pattern applies for most of the consumer non-durables sector, including food processing, tobacco, and apparel, which are the last items to be eliminated from the household budget.

—David Goldman



Britain caused the 1929 crash

The 50th anniversary of the 1929 stock market crash

was marked this week. In commemoration, a slew of both "fiscal conservative" and "liberal" economists have gone into print declaring the inevitability, indeed the necessity of Federal Reserve Chairman Paul Volcker's credit measures against the U.S. economy. Then as now, they say, the people of the United States must endure a decline of their standard of living.

This is no mere show of economic incompetence. These same economic wizards are up to their necks in formulating and carrying out the policy put forward by the New York Council on Foreign Relations in their policy magnum opus "Project 1980s." The U.S. economy must undergo "controlled disintegration," a good old fashioned unraveling of the U.S. economy that will finally thrust Britain into the prominence it once enjoyed.

In distinction, Lyndon H. LaRouche, Jr. is the first and only economist to show that there is no "inevitability" to a depression. As the previous article shows, Volcker's policies have deliberately targeted sectors of the U.S. economy for collapse. LaRouche's "Riemannian" method enabled him to predict the recession of 1957-58, the slowdown of the 1960s, and what then Treasury Secretary John Connally's early 1970s measures would mean for the U.S. and world economy. That same method is the basis for finding a way out of Volcker's depression through a high-technology program of domestic production and exports.

In February 1978, authors David Goldman and Richard Schulman applied this method to the study of the Crash of 1929—who created it and why. "Britain Caused the Crash of '29" warned that Britain was prepared to try it again. America's credit system faced a catastrophe due to the explosive creation of fictitious liquidity in the Eurodollar market and related speculative ventures at home. As in the 1920s, the crisis stemmed from British control of international lending policy and manipulation of American capital. Once more, the American economy is in a systematic decline, the authors warned. The root of the deterioration is the stagnation and present-day decline of American exports, due to British manipulation of international credit flows into speculative sinkholes.

The events of today bear out these warnings. As in the Crash of 1929, the Federal Reserve is working hand in glove with Britain. Every move by Volcker was first discussed with his counterparts in Britain. And like the Crash of '29, how the depression unfolds is a matter of deliberate policy making.

When Volcker announced his tight credit policies, LaRouche, now a Democratic candidate for President, warned that if not reversed Volcker's policy will mean depression. He called for Volcker's resignation before Britain and their anglophile allies succeed in causing a second Great Depression.

Executive Intelligence Review reprints below "Britain Caused the Crash of '29" which first appeared in the twice weekly newspaper New Solidarity.

The floor of the New York Stock Exchange, Oct. 24, 1929: clerks in shirtsleeves chalk up, rub out, and frantically chalk up again prices that show the market value of American industry has collapsed by ten percent over the morning. The ticker has fallen hopelessly behind, as sell orders from across the country swamp the trading floor. Big blocks of equity find no buyers. A crowd has gathered outside the marble pillars of the Exchange. At the Morgan Bank on 23 Wall Street, New York's leading bankers devise secret, fruitless plans to quench the panic. The Great Depression has begun.

Overlooking the scene of chaos, in the visitors' gallery, stands a short, dog-faced man, who watches with a grim feeling of accomplishment. The enemy has been put to rout, he must have thought to himself. He wrote later:

The whole wealth so swiftly gathered in the proper values of previous years vanished. The prosperity of millions of Americans had grown upon a gigantic structure of inflated credit, now suddenly proved phantom.

The name of the watcher in the visitors' gallery was

Winston Churchill. He had reason to gloat. The 1929 crash was a British operation. It signalled the end of a period of economic expansion greater than any Americans have known since, and closed the door to any American attempt at world economic leadership.

Documents that prove that the City of London conspired to bring on the crash are in the public record. An official Federal Reserve memo dated Feb. 7, 1929 notes that the Bank of England demands that American interest rates

be raised, at some unspecified time by a full one percent with a view to breaking the spirit of speculation, and then subsequently if necessary by another one percent, in order to provoke liquidation, and then after a fall in the stock market similar rate action at the first sign of the next revival. By thus prostrating the stock market ... we should be cutting at the root of the current situation.

In a Feb. 4, 1929 cable the Governor of the Bank of England, Montagu Norman, wrote:

A scramble for gold is threatened. This threat arises from credit position in the United States as shown particularly by abnormal Call and Time rates (short-term money rates—DG) which appear to be due to Stock Exchange speculation. Therefore expectation is that Boston and/or Philadelphia (Federal Reserve Banks—DG) will recommend one percent increase in Bank Rate on 6th or 13th. ... Further increases may follow if needed to adjust credit position.

That cable informed the Bank of England of Montagu Norman's agreement with the New York Federal Reserve Bank to provoke a stock market crash, the same discussions recorded in the above citation.

On Black Thursday, Oct. 24, Montagu Norman cabled the New York Federal Reserve with congratulations—before the panic had actually occurred!

Recent liquidation in your stock market and reduction in call money rates have been satisfactory and have helped to reestablish (Britain's—DG) international position.

As the cited cables state, the Bank of England and the New York Federal Reserve conspired to put up interest rates and take related measures to choke off the flow of funds into the stock market. In September, the Bank of England raised its discount rate from 5.5. percent to 6.5 percent in order to draw funds off from the New York market, while the Federal Bank of New York did as much as it dared to tighten credit at the source. Seventeen days before the crash, then New York Fed Presi-

"A Feb. 4, 1929 cable informed the Bank of England of Montagu Norman's agreement with the New York Federal Reserve Bank to provoke a stock market crash. . . "

dent George L. Harrison bragged about the success of the credit squeeze:

The policy which we adopted early in August, of putting out funds through the bill market under the protection of an effective six percent rate, has thus far worked much better than I had even dared hope. Bills (trade-related paper-DG) have gone up, discounts (Fed issuance of direct credits to banks) have gone down, and the total volume of Federal Reserve credit has expanded only in proportion to the historic seasonal line ... we can continue this program so that the total volume of discounts in the system will gradually decline to a figure much less than we have averaged during the past year....

But as the crash demonstrated, further action was superfluous. The New York Fed. staffed by British collaborators from the Morgan bank, and the Bank of England, had brought the roof down.

These facts were well known and widely available. Also well known is that British Banks began withdrawing immense amounts of funds from the New York money market, which had supported purchases of stocks on margin. Britain's pound sterling, bled white by the drain of international money into the New York stock market boom, had undergone a spectacular recovery on the markets in October 1929, before Black Thursday, as the City of London sucked money in preparation for the crash!

In fact, no one at the time of the crash doubted that the British had done it. Another British vulture who descended on New York City to watch Black Thursday, London *Economist* editor Josiah Hirst, wrote later:

I recollect at a London gathering of economists early in 1921 a discussion of the Stock Exchange boom in New York. ... We all agreed, I think that a slump or crash was then probable.

The rise of the London Bank (of England) Rate to 6.5 percent on Sept. 26 precipitated the Stock Exchange crisis and slump of October.

Whether the action of the Bank (of England) in raising its rate was right or wrong need not be discussed here ... the mob of small speculators held on till the last moment, whereas many of the big speculators, being better informed and impressed by the selling movements from London and the Continent, began to liquidate in September and unloaded their holdings on the market, which was consequently weakened.

In New York City, British-linked insiders, notably the financial page of the New York Times had been egging on the crash for months. In fact, by the time the panic struck, the Round Table's New York Times had declared a half dozen previous breaks in the market to be the Last Day for the hordes of sinning speculators. Why the lies? Coldly summarized, these facts leave no doubt that the City of London took willful action to pull down the world economy in the fall of 1929. They should erase doubt that the sixth-generation Rothschilds, Barings, and Hambros will flinch from intentionally destroying the American banking system today, the way the fourth generation of Rothschilds, Barings, and Hambros intentionally destroyed the New York Stock Market. Why all the lying, then, about the origin of the Great Depression?

The United States did not have a depression because it had a stock market crash. It had a stock market crash because British control of the international markets created a depression. Above all, the financial policies of British Treasury minister Winston Churchill, the ghoul of Black Thursday, wrecked the post-war prospect of an American-led boom in world trade. Churchill's tenure as Britain's Chancellor of the Exchequer from 1924 to 1929 shut American industry out of world markets. In a close parallel to the London Eurodollar cancer during the 1970s, London bled American capital to revive the bankrupt financial empire of the pound sterling, at the direct expense of American industry. American acquiescence in Winston Churchill' world looting plan passed a death sentence on the American economy, marked by the 1929 crash.

From the disastrous 1919 Treaty of Versailles through to the 1931 collapse of the pound sterling itself, the bankrupt British provoked a series of economic disasters. They extricated themselves from each disaster by provoking a worse one. The great irony of 1929 is that the great stock market boom was the runaway consequence of Winston Churchill's 1925 attempt to repeg world currencies to a valueless pound backed only by borrowed American gold reserves. Once the City of London had transformed the world economy into a speculative madhouse, the world's free capital flooded into shares in American industry, the one viable sector of the international economy. When the flight into the New York stock market threatened to bring down the valueless pound, Britain conspired to collapse the market.

But the stock market crash set in motion the chain of events that led to the great chain-reaction bankruptcy of 1931 and brought down sterling. The City of London then played its last card: to place their agent Adolf Hitler at the head of Germany as a marcher-lord against the Soviet Union. London had already dug the 50 million graves of the next war.

That unspeakable string of British crimes is the hidden subject of the lies about the Great Crash. Canadian-born Professor John Kenneth Galbraith, an intimate of the Warburg banking family that played a key "insider" role in the crash itself, assembled the most widely read package of lies in his book *The Great Crash* (1954). An outspoken apologist for Hitler's Finance Minister Hjalmar Schacht, Galbraith denies that the credit policies of the Bank of England and their collaborators at the New York Fed created the mess:

Far more important than rate of interest and the supply of credit is the mood. Speculation on a large scale requires a pervasive sense of confidence and optimism that ordinary people were meant to be rich. ... Sometime, sooner or later, confidence in the short-run reality of increasing common stock values would weaken. When this happened, some people would sell, and this would destroy the reality of increasing values.

I.e., a burst of madness created the speculative wave, and "the ten good years of the Twenties had to be paid for by the ten bad ones of the Thirties."

The other side of Galbraith's clipped coin is the lie that the American economy was "naturally" slipping into depression in any case, and that the stock market crash only hastened the inevitable. The centerpiece of this lie, which is a favorite of British writers, is the claim that capital investment rose too fast:

Throughout the Twenties, production and productivity per worker grew steadily: between 1919

and 1929, output per worker in manufacturing industries increased by about 43 percent ... costs fell, and with prices the same, profit increased. ... A large and increasing investment in capital goods was a principal device by which the profits were being spent (Galbraith).

Therefore, "anything that interrupted the investment outlays—anything, indeed, which kept them from showing the necessary rate of increase—could cause trouble." In other words, the American economy collapsed because it was successful, because it did not follow the contemporary British model of deindustrialization! The New Deal myth of the "Mature Society," the grandaddy of all zero-growth, income redistribution programs, found rationalization in this lie.

But there is a significant kernel of truth to sustain the "over-investment" propaganda line, which points to the crux of the entire subject. Between 1926 and 1929, capital investment in American industry rose at a compound annual rate of 11 percent—several times higher than during the last decade to the present. After the crash and subsequent financial disasters, capital investment fell to virtually zero. The entire workforce of the capital-goods industries found itself on the pavement. These workers ceased buying consumer goods, which shut down production in much of the consumer-goods industry. At the depth of the slump, industrial production had fallen a crushing 40 percent, total output of goods and services had halved, and unemployment was over 30 percent.

An American system economy based on high rates of technological progress must either grow at an accelerating rate or dissipate its energies into collapse. There is no in-between. For this reason, the strongest economy of the 1920s had the farthest to fall during the 1930s.

The supercilious Galbraith and his fellow liars demonstrate the opposite of what they intend: an American economy based on American System principles cannot exist in a world market ruled by Britain. There was not during the 1920s, nor can there ever be, a reconciliation between the American system and the British system. Once London chained the world economy to a system of war-debt repayment at Versailles, American industry was shut out from the world market. The decline of the world market ultimately prevented America from achieving the accelerating growth rate it had geared up for. London's domination of world financial policy created the theater for the sequence of British covert manipulation and haywire effects.

In the economic data of the 1920s, all this is immediately evident. Between 1921 and 1929, output of all industrial commodities for domestic consumption rose from \$26 billion to \$38 billion. As noted, capital investment rose at rates that dwarf anything since 1958. A

"Once London chained the world economy to a system of war-debt repayment at Versailles, American industry was shut out from the world market."

good pointer is auto production: at 5,358,000 in 1929, new car registrations had almost reached the level of the height of the post-World War II boom in 1953, when registration totaled 5,700,000.

Exports, in complete variance, hardly rose at all. Foreign shipments stood at \$3.3 billion in 1921, \$3.7 billion in 1926, and a marginally increased \$3.9 billion in the year of the crash. As a percentage of output, exports actually *fell* from 12 percent to 10 percent. In lockstep, the *rate of rise* of production began falling in 1926, from a 1921-1926 compound growth rate of over 11 percent a year, to a 1926-1929 rate of only 1 percent a year! By the summer of 1929, a few months before the crash, all major categories of production and transportation had already begun shrinking, a circumstance reported out of context by the "inevitable depression" liars.

What makes the stagnation of exports, which brought down the entire economy, especially shocking is that America was lending to foreign customers throughout the period at a rate greater than at the apex of the 1970s Eurodollar boom. In the six years 1924-1930, America lent over \$3 billion to foreign countries. Foreign lending reached the incredible rate of \$1 billion a year during 1928—at the precise point that exports started to fall. In the smaller scale of the 1920s, these numbers are indeed huge; total plant and equipment purchases during the period were only \$17.3 billion.

How could this have happened?

The great betrayal

American foreign lending did the American economy no good because virtually all foreign lending was either to the City of London, or to investment sinkholes created by the City of London. It happened that way because Thomas Lamont of Morgan and Benjamin Strong of the New York Federal Reserve conspired with Winston Churchill and Montagu Norman of the Bank of England to make sure it happened. Billions in American capital were put to the service of the bankrupt pound sterling, in order to restore its status as the top

international lending currency—which Winston Churchill attempted in 1925.

In a nutshell, the City of London blackmailed the world for the costs of servicing the monstrous war debt perpetuated by the British Round Table's Versailles "peace" treaty in 1919. A single fact about the monetary system of the 1920s makes all the later disintegration obvious: debt service payments on war obligations were roughly equal to all other loans extended to all foreign borrowers for all purposes!

Of course, the relationship between the Versailles Treaty's war debts, and the international lending during the 1920s, was not direct in the sense that every dollar lent immediately went to service war debts. Nor could it have been: international trade would have ceased to exist. Instead, the debts contracted through the end of 1919 were "restructured" into an even greater mass of longer-term obligations whose payment schedules stretched out through the next half-century, as shown by this table (in billions of dollars):

	War debts (as of 1919)	War debts after refinancing
Britain	4.604	11.0
France	4.625	7.547
Italy	0.631	2.685
Belgium	0.418	0.728

The bloated mass of debts cost almost \$400 million a year to maintain, against a rough average of \$600 million a year in new loans. No wonder, then, that American exports stagnated.

These numbers represent only the Allied interwar debt. Under British Round Table progeny Lloyd George's slogan, "Squeeze Them 'Till the Pips Squeak," the Round Table's Versailles Treaty imposed \$33 billion in reparations on defeated Germany. That was equivalent to Germany's total production in a good year.

To nail the coffin lid shut, Montagu Norman and Benjamin Strong intentionally pricked the monetary bubble that had built up during the war years, throwing the United States into a brief but severe depression in

"Norman's boast that the crash had helped to reestablish Britain's international position meant that American capital markets were Britain's for the picking once again..."

1921. Writing to his agent-of-influence Strong at the New York Federal Reserve who had engineered a credit crunch on Norman's orders, on the subject of the U.S. postwar economic boom, Montagu Norman fulminated:

We are determined to stop this mad march of speculation and expansion, whether it be in securities, real estate, commodities or what not ... at last the first step has been taken towards freeing Federal Reserve rate policy....

for a deflationary coup. Norman's outburst was penned in January 1920. In December of that year, Benjamin Strong visited London and wrote back to his colleagues at the New York Fed that the Bank of England

considers that general rate policy has so far been wonderfully successful although the position here might be better today had they been more drastic six months earlier(!). The fact remains that world deflation has been started.

The conspirators had instigated a "wonderfully successful" act of economic sabotage against the American economy, which threatened to shove the bankrupt British out of world trade. The effect was shattering. Prices in world trade fell cleanly to half their 1920 levels by 1922. In cold cash, that meant that the real cost of international debt service, in terms of deflated prices for goods, had doubled.

Although the sheer madness of London's manipulation is breathtaking, it was not unprecedented. Montagu Norman's ancestors did precisely the same thing after the William of Orange takeover of the English throne, in the Crash of 1696, and after the Napoleonic wars in 1816. Each time, the City of London debt-collectors compounded the world's misery by triggering a general deflationary collapse, in order to increase the relative value of their debt holdings.

With the United States in temporary decline, the British made their grand play at a meeting of world central bankers at Genoa in 1922: previously, Norman said, central banks has held their reserves in gold. That would no longer do. Henceforward, only Britain and

the United States will hold reserves in gold. Everyone else will hold their reserves in pound sterling, or perhaps dollars—but principally sterling. Norman was asking for the world. London had consciously and deliberately destroyed what might have remained of Britain's industrial markets after the war. America's emergence as the one sound postwar economy prevented London from skimming world trade off the top through financial control, as it had done since 1782. So Montagu Norman wanted the world's foreign exchange reserves!

The Genoa meeting itself broke up without results, partly because President Harding's Treasury Secretary, Andrew Mellon, did not want to bail the British out, and put the Anglophilic Strong on a short leash. But two years later, Norman got precisely what he demanded on a silver platter, courtesy of the New York Federal Reserve and its backers at the Morgan Bank.

By 1925, the Bank of England, the New York Fed, and the Morgan Bank had ridden over Europe like the Apocalyptic horsemen. German reparations were refinanced through a 900 million gold mark loan organized by the Morgan Bank, under the control of future U.S. Ambassador to Britain Charles Dawes. The New York Federal Reserve's official historian wrote, "The vacuum left by the United States authorities was filled by (pro-British) J. P. Morgan and Co." Placed in charge, Hitler's future economic czar Hjalmar Schacht vigorously enforced the Dawes Loan provision that capital investment in the German economy cease. All of continental Europe, excepting France, was a protectorate of the Bank of England—directly in Central Europe, where Bank of England agents officially ran all central banking, and indirectly in Italy, where Winston Churchill's protégé Mussolini had seized power in 1922.

It fell to Chancellor of the Exchequer Churchill to announce the culmination of London's struggle to the top of the rubble heap. On April 1925, the dog-faced Churchill told the British Parliament that Britain had returned to the prewar gold standard, at the prewar parity of 4.85 pounds to the dollar. In fact, the rotten shell of the British currency was reinforced by hundred of millions of dollars cheerfully provided by British

agents-of-influence at the New York Fed and the Morgan Bank.

The betrayal of the dollar to the bankrupt pound was comprehensive. For six months prior to Churchill's gleeful announcement, Strong at the New York Fed dropped the bank's discount rate from 4.5 to 3 percent, and increased the money supply in the New York Federal Reserve District at an annual rate that, in present-day terms, would be the equivalent of 40 per cent a year! With the dollar weakened by this hyperinflationary burst, sterling was sufficiently "strong" to repeg to gold.

Together, Morgan and the New York Fed jointly bankrolled the "gold pound." The Federal Reserve became a virtual branch of the Bank of England in a \$200 million credit line for support of sterling. In turn, the Bank of England pledged an equivalent amount, two-fifths of its own assets, to the New York Fed, and two central banks agreed to subordinate all American credit policy to the grand design of keeping the bankrupt pound afloat. Two weeks after the deed had been done, Churchill assured Parliament of a glorious pecuniary future for the "Empah."

On the contrary, the financial system immediately went haywire.

Creating the crash

Churchill's action was one of the most onerous in world financial history. Even the British Round Table saw how shaky their position was. Their agent, John Maynard Keynes, immediately opened a new flank, denounced Churchill in a pamphlet, and joined Sir Oswald Mosley, the future Führer of the British Union of Fascists. Working with Mosley, Keynes wrote the prototype fascist economic program in 1926, the forerunner of Schacht's "autarky"—which Keynes enthusiastically supported.

From the psychotic vantage point of a Churchill or Norman, there was one great money-wrench in the works: the still-prosperous United States economy. The City of London had virtually no funds of its own. It depended on loans from New York, which it converted into sterling and relent to Germany, Central Europe, and Australia. After great bursts of lending in 1924 and 1925, American capital suddenly became obstinate: during 1926 it flooded into the New York stock market and ignored London. Sterling tottered. Churchill had fits of apoplexy.

In panic, Schacht and Norman arrived in New York in July 1927, to persuade Strong to shovel more money into the system and save sterling. Strong—despite vehement opposition from the Chicago Federal Reserve Bank and the threat of congressional investigation—cut his lending rate from 4 percent to 3.5 percent, and

bought dollar and sterling securities alike to pump money into the system.

Strong's second great dose of monetary inflation had horrible side-effects. Initially, it revived the outflow of funds—Britain's looting of American capital—to a then-stupendous level of over \$1 billion during 1928. But it also set off a modest bubble in the New York Stock Exchange, whose shares doubled in value between the beginning of 1928 and the crash of Oct. 24, 1929. Relative to American industrial strength and the size of the American economy, the sudden takeoff in share values was less than a mortal problem. Britain had turned the world into a roulette table, and America was the only confidence-inspiring game in town. Funds pouring in from abroad buoyed the market, and the drain pushed sterling to the brink. As reported above, the City of London had resolved to kill the stock market by the beginning of 1929 at the very latest.

Norman's Oct. 24, 1929 boast that the crash had "helped to reestablish Britain's international position" meant, specifically, that the American capital markets were Britain's for the picking once again. The American securities markets did not collapse immediately after Black Thursday. On the contrary, Morgan and its allies raised a then-record \$700 million in foreign loans during the first half of 1930.

What had collapsed was American industry's fighting spirit. Three years of stagnating production and exports had taken their toll on America's capacity to sustain the necessary rising rate of productive investment. The crash killed it. Britain's black operation created panic, which had its own self-feeding effects. Chief among these was the mammoth error of the Hawley-Smoot protective tariff, passed with the support of American industrialists and farmers who despaired of access to world markets.

In an act of supreme irresponsibility, the City of London had wrung the neck of the Golden Goose. The collapse of the American economy, the one pillar of world economic activity during the 1920s, broughtworld disaster. World trade closed down, prices fell by 1931 to half of their 1929 levels, and the big borrowers of the 1920s defaulted in a chain reaction.

Britain itself was nonplussed, shifting the worst of the 30 percent collapse of sterling's international parity onto its colonies, the price of whose raw material shipments to Britain had dropped 60 percent. The Hitler policy was in the works as far back as 1928, when Norman told a financier friend, "There will be no real settlement (in Germany—DG) without a crisis—real, and sufficiently real to frighten politicians and public."

—David Goldman Richard Schulman

Illinois legislature unanimously votes for Volcker's resignation

In an historic decision the State of Illinois General Assembly unanimously passed House Joint Resolution Bill # 67 in a special session called by State Representative Larry S. Bullock. The resolution called for a lowering of interest rates set by the Federal Reserve or for the resignation of the recently appointed Federal Reserve Chairman Paul Volcker.

Bullock, a democrat from the 22nd district in Cook County, introduced the bill Wednesday in the House where it received bipartisan support from the Republican and Democratic leadership. In rapid succession the Senate unanimously endorsed the bill as well.

The mandate of the Illinois legislature against the policies of Paul Volcker is now sparking similar activity in legislatures around the country. Lyndon H. La-Rouche, Democratic candidate for President and the only candidate so far to oppose Volcker's policy, sent a telegram of congratulations to the State legislature.

Last Monday, October 29, on the 50th anniversay of "Black Friday," Larry S. Bullock held a press conference in the State of Illinois Building in Chicago. Bullock warned that the spiraling interest rates promoted by Paul Volcker, chairman of the Federal Reserve, might very well lead the nation to a repeat of the great depression of 1929. Bullock announced that he would introduce a resolution in the General Assembly calling on President Carter and Congress to reverse Volcker's policy or demand Volcker's resignation.

On Wednesday morning the rules of the House were suspended in an emergency session, so that the entire House could vote on the resolution. One hundred and seventy-seven state representatives—Democrats and Republicans—endorsed the resolution. The Senate passage occurred on the next day.

Bullock shared his concern over Volcker's policy with religious and civic organizations in Cook County. Reverend Ben Butler, head of the Missionary Baptists Ministerial Conference, which has over 400 ministers

servicing a congregation of over 200,000, joined Mr. Bullock at the press conference. Also present were Nathaniel Clay, communications director of Operation Push, Tony Travis, village of Maywood Trustee, and Reverend Hiram Crawford, powerful black southside leader who first endorsed Jimmy Carter and Mayor Byrne in their election campaigns.

Reverberations in Chicago

Mr. Bullock submitted his resolution to the General Assembly with 30 cosponsors, both Republicans and Democrats. He had the entire support of the Cook County delegation, which has started to work in a political fight against the austerity measures now being called for by Mayor Byrne.

The state's unanimous endorsement of Bullock's resolution is a rebuff to Mayor Byrne, who has just endorsed Ted Kennedy. Kennedy and his economic advisors like Walter Heller have consistently supported Volcker's tight credit policies.

Byrne's endorsement of Kennedy at this early date is unprecedented in Cook County politics. Chicago normally enters Democratic presidential conventions uncommitted or with a favorite son candidate, in order to gain bargaining leverage for the city's interests.

Mayor Byrne and Governor Thompson alienated large sections of the Illinois democratic delegation when they shelved the Crosstown Expressway, a project of the late Mayor Daley's to revitalize the city, and defeated the tax-override efforts of the Cook County Democrats. The unanimous endorsement of the Bullock resolution is one sign that Byrne does not command the loyalty of Cook County Democrats.

Mr. Bullock will go to Washington, D.C., next week to meet with the Illinois congressional delegation on the implications and activities to be carried out in view of the mandate that his resolution has been given.

Implications for presidential race

Growing resistance to Volcker's policy has been effectively catylized by the efforts of Democratic presidential candiate Lyndon H. LaRouche. LaRouche is the only candidate that has opposed Volcker's "fiscal austerity." On Oct. 17. Mr. LaRouche issued a memorandum and held a press conference calling for Volcker's impeachement. Citizens for Larouche, LaRouche's campaign committee, distributed 200,000 leaflets nationwide targeting trade unions, auto, realtors, legislators, homebuilders, and small businessmen.

In the last 10 days resolutions similar to Bullock's were issued by Ralph Greene, secretary-treasurer of Local 713 of the Federal Printers Union in Washington D.C., unanimously endorsed by AFL-CIO Mason Tenders Local 23 in New York City, and introduced into the Baltimore City Council, where it has been sent to the finance committee to be put into bill form. In Buffalo, Cleveland, Pennsylvania, and Massachusetts, city councilmen and state legislators are considering introducing similar resolutions.

LaRouche sent a letter of congratulations to Bullock the day the resolution against Volcker passed the Illinois House. LaRouche noted that the cosponsors of the bill represented business, labor, farm, and minority constituencies, and gained support across not only party lines but from supporters of Reagan, Kennedy, and La-Rouche. "Your bold leadership has spearheaded an inspiring action by the state legislature," stated La-Rouche. "As I am certain you fully appreciate, today's action by combined Republican and Democratic forces of the Illinois State Legislature may prove to be the spark which leads our nation away from the brink of a threatened deep recession. ... The essential goodness waiting to be called forth from the majority of our citizens was efficiently represented both by your own initiative and by the support mobilized in behalf of that initiative." -Mel Klenetsky

Be it resolved: Volcker must resian

Representative Bullock introduced the following resolution to the Illinois General Assembly Oct. 30. Due to bipartisan action by the Illinois Democratic and Republican party leaderships, the resolution was passed unanimously the following day, and has since gone to the Senate, where it also passed in a unanimous vote.

WHEREAS. Federal Reserve Chairman Paul Volcker has initiated a loan interest rate approaching nearly 15 percent; and

WHEREAS, this policy is leading to possible urban disintegration by forcing real estate, construction, savings and loan institutions and auto dealerships into economic chaos; and

WHEREAS, the city of Chicago and other cities in Illinois are facing deficits under Paul Volcker's policies which deny cities access to credit markets: and

WHEREAS, Paul Volcker has stated before the Congressional Joint Economic Committee that the "standard of living of the average American has to decline"; and

WHEREAS, Paul Volcker's policies caused the National Association of Home Builders to place an ad in the Washington Post stating "Big corporations and big government will survive the tight money policy at the expense of the young and elderly, and the poor and the disadvantaged, working people and small businessmen"; and further stated that the Federal Reserve policy will have these disastrous effects on the housing field alone: \$24 billion in wages lost; 1.1 million units fewer housing built in 1980, compared with 2 million units in 1978; 675,000 jobs lost in the building trades; and 818,000 jobs lost in related industries.

THEREFORE BE IT RESOLVED that the Illinois congressional delegation request that Federal Reserve Chairman, Paul Volcker immediately lower the interest rate levels and loosen his tight money policy to ensure that the necessary credit is available for productive investment and to maintain present employment levels, or that President Carter and the U.S. Congress accept Mr. Volcker's resignation.

Call for selective credit action issued

Democratic presidential candidate Lyndon Hermyle LaRouche, Jr., has issued an emergency message to President James E. Carter and the members of Congress. The message specifies those alterations in the 1969 emergency credit controls bill which must be effected immediately, as alternative to the deadly recent actions of Fed Chairman Volcker, and the even more dangerous proposals of Representative Henry Reuss.

LaRouche emphasized that the present breakdown of the value of the United States' dollar began in August, 1971, when John Connally successfully induced President Richard Nixon to "steal" the monetary reforms package of Representative Reuss. Reuss's proposed medicine has always proven worse than the disease it purports to treat, the candidate insists.

What LaRouche outlines is a two-tier credit market.

(1) Low borrowing costs, and ample supplies of credit

for both operating capital and investment in production capacity for farmers, manufacturers, construction firms, mining firms, and transportation firms. There should be the same treatment for commercial firms engaged in wholesaling and retailing the product of farms, manufacturers, construction firms, mining firms, and transportation firms. (2) Except for vulnerable real estate categories, there should be punitive tightness of credit for legalized-gambling ventures and for all other forms of speculative and service enterprise not directly related to production and commerce in tangible new product, with the following noted exceptions: educational and medical or hygienic services, and resale markets for household capital-goods categories.

In contrast, the measures taken by Volcker and the measures proposed by Reuss would savagely increase declines in production, commerce and employment, without checking the real causes of monetary inflation. The kinds of measures adopted by Volcker and Reuss are in fact an imitation of the programs instituted by Nazi Finance Minister Hjalmar Schacht. The President and Congress must make it forcefully clear to such

Illinois Rep. Bullock: it means catastrophe

In a Chicago press conference Oct. 29, State Representative Larry S. Bullock, a Democrat, issued the following statement on the state of the U.S. economy and Federal Reserve Chairman Paul Volcker's program. His statement was covered that same day by major radio networks in Chicago.

It is ironic that we are holding this press conference today on Lasalle Street, 50 years to the day that "Black Friday" occurred—the infamous day the New York Stock Market collapsed.

I am not an alarmist, but being aware of the circumstances that currently exist, I have convened this news conference. Joining me today are leaders of religious and civic organizations who share my con-

cern that we do not suffer a repeat of the Great Depression of 1929.

There has been considerable discussion concerning raising the mortgage usury ceiling in the State of Illinois. This issue, which goes before the General Assembly tomorrow in Springfield as House Bill 2818, will have significant impact on the economic well being of the state. However, neither the solution nor the problem exists in Springfield, Ill.

The problem is the federal monetary policies of Paul Volcker, Chairman of the Federal Reserve Board in Washington. The problem is the policy of Paul Volcker which limits the rate of interest paid on savings accounts, while at the same time allowing unlimited interest to be paid on commercial certificates of deposit.

What concerns us very deeply is that the spiralling interest rates being promoted by Paul Volcker might very well lead us to economic chaos. Therefore, on Tuesday, Oct. 30, I shall submit an emergency resolution to the Illinois General Assembly which calls upon the Illinois congressional delegation to request that Federal Reserve Chairman Volcker immediately

misguided influential figures as Volcker and Reuss that the people and political parties of the United States are not going to permit a reenactment of the discredited Nazi Schachtian experiment upon our own nation.

For those unacquainted with the evil and incompetence of the so-called "wizard" Schacht, LaRouche recommends study of the writings of the late Jacques Rueff, as well as the candidate's own exposure of the hoax and evil of Schacht's "wizardry."

Although Schacht was sent into honored semi-retirement by Hitler at the close of the 1930s, it was Schacht's policy which directed the Nazi regime from the point Schacht put Hitler into power over the winter of 1932-1933 until the miserable end of the Hitler regime. Schachtian "fiscal austerity," the model for the proposals of both Volcker and Reuss, is "hyperinflation turned inwards," as Jacques Rueff accurately described it. The Nazi regime was brought close to total economic collapse by Schachtian looting during 1936-1937, and continued only by a process of both looting its neighbors and the hideous, wartime slave-labor/useless eaters measures.

This understanding of Volcker's and Reuss's policies is not limited to candidate LaRouche, nor Jacques Reuff. Milton Friedman has repeatedly, and explicity associated himself with defense of Hjalmar Schacht's policies, as has liberal Keynesian Abba Lerner. Although John Kenneth Galbraith has been a less boisterous booster of Schacht than Friedman or Lerner, Galbraith's policies are also Schachtian, and Galbraith is aware of this connection.

Admittedly, this Nazi precedent is not known to most of the banking and corporate circles who have gathered themselves into hysterical support of Volcker's recessionary policies. These corporate and banking circles are not intentionally evil, they are merely behaving foolishly at this moment. Their foolish behavior is in fact almost identical with the industrialist and banking circle of 1932 Germany who supported Schacht's program for pushing Hitler into power. They are being simply narrow-minded and opportunistic, refusing to think through the consequences of Volcker's sort of policies.

lower interest rates or that President Carter and members of Congress accept his resignation and rescind the tight-money policies of his administration.

My positions on these issues are totally consistent with the 1976 Democratic national platform passed at the New York convention which clearly states that:

"The biggest reason for escalating housing costs is mortgage interest rates. Out of every housing dollar, 37 cents is spent on interest, with mortgage rates pushed to the highest levels of the past century, the notion the public is served by high interest rates is a myth. Every time the mortgage rate rises a single percent, three and one half million Americans are locked out of the chance to own a home." The solution to the home building dilemma in Illinois and the nation is not located in the lifting of the usury ceiling. While it is true that because of the ceiling, lending institutions find it impossible to make money on mortgages, it would be folly for anyone to believe that there would be any real housing "boom" with mortgage rates approaching 15 percent.

A sound monetary policy is required to generate the credit necessary to gear up our economy for expanded industrial development which will increase the rate of capital formation. This creates the means to both lower the prime interest rate and develop millions of productive jobs for Americans.

Already my constituents and many elderly and middle class citizens have been priced out of the housing market. How many more will be denied acess to the housing market with escalating high interest rates? Clearly the solution lies not in Illinois but in Washington, D.C., where President Carter and Federal Reserve Chairman Volcker have embarked on their high-interest rate squeeze.

Therefore, I am urging both the lobbyists and the legislators who support House Bill 2828 to also join with me in a bi-partisan effort to lower the national prime interest rate.

On Oct. 29, 1929 our nation went through a regrettable economic collapse precipitated by a similar high interest rate policy. Now is the time for the citizens of Illinois to take the lead in preventing such a catastrophe from occurring again.

Connally's economics or Kennedy's:

Sen. Kennedy: austerity ... maybe technology

"One of the leading problems in the country at present is inflation. The steps the Fed has taken are not steps that I would differ with," a prominent U.S. presidential candidate told *Business Week* Oct. 22, speaking of U.S. Federal Reserve Chairman Paul Volcker's current severe cutoff of credit to the nation's industry and consumers. That same well-known face, said Wall Street's leading investment bank Morgan Stanley in a confidential report to clients last week, will be able to "lead the country to the right" with these policies.

Was this Ronald Reagan, George Bush, or even Gerry Ford? No, the presidential frontrunner in question is that friend of labor and the consumer, Edward Kennedy. Of course Kennedy will not admit to much of this in public, where aides say, he will soon come out with a populist call for wage/price controls.

But before business audiences, Kennedy, under the influence of behind the scene advisors from the Georgetown Center for Strategic and International Studies (CSIS) and the Johns Hopkins School for Advanced International Studies (SAIS) is also pushing a "new birth of industry in America and a new flowering of technology," as he told the Investment Association of New York on Oct. 4. Kennedy's backers in the Senate are also planning a "major public relations campaign for an expanded U.S. export drive, on which the administration has failed," CSIS sources add.

Kennedy, not famous for his economic competence, has not yet managed to explain to the U.S. corporate sector and the voters generally how he would finance these ambitious programs either under his public monetary policy of wage/price controls or his private one of credit crunch.

Even more privately, his advisors explain that neither Kennedy's technological investment program nor his trade push really need be implemented at all. "It's not a question of his policies or what he says in substance," said one SAIS source, "It's a question of how he's perceived in *Europe*, as a strong president." It turns out that the CSIS crowd is most concerned with the strategic decline of the U.S. in the Atlantic alliance,

and would like to see a presidential candidate who can convince West Germany and France that the U.S. can retake world economic leadership.

Presidential campaign knowledgeables have also noted that Kennedy's strongest rival in the New Hampshire Democratic primary, the favorite son Lyndon H. LaRouche, Jr., is widely known in Europe as the intellectual author of the Franco-German European Monetary Fund and its associated policies of dollar stabilization and U.S. trade expansion.

'Cut credit volume'

Where monetary policy is concerned, Kennedy's latest idea of Camelot seems to include large unemployment lines around the castle, to hear his advisors privately explain Kennedy's Business Week interview. "The best thing the Fed has done is to cut back on the volume of credit issuance," said Jack Albertine today. Albertine is one of Kennedy's top economic advisors on the staff of the Joint Economic Committee of Congress and executive aide to Senator Lloyd Bentsen, Democrat from Texas, who is widely touted as Kennedy's running mate. Putting an absolute ceiling on credit volume is in fact the most novel, most destructive part of Volcker's draconian measures. It will cause large-scale shutdowns in industry. It means that only a certain small percentage section of the economy receives credit, while the rest does not-no matter how high interest rates go. "The Federal Reserve really had no choice, in fact we thought they should have switched to looking at this excess creation of (credit) reserves long ago," Albertine said.

"I support Volcker Paising interest rates will certainly hurt the economy but Volcker had to do something," agreed Joseph Pechman, a senior Kennedy family advisor and head of Economic Studies at Washington's Brookings Institution.

Barton Biggs, Director of Research at Wall Street's radically "fiscal conservative" Morgan Stanley, is meanwhile telling his pro-Volcker clientele in the banking industry to swing for Kennedy now because only he, with his liberal face, can implement deep austerity. "It may be," he wrote in the firm's high-priced newsletter, "that we must have a leader with impeccable liberal credentials to lead the country to the right ... just as we needed a hardline anti-communist to lead us into a relationship with China. ... Ted Kennedy, as a rational politician who wants to win, must move to the right.

Privately, however, Kennedy's closest Washington

is there really any difference?

aides admit that the Senator, for public consumption, will soon have to make a purely rhetorical anti-Volcker splash to "Hooverize" President Carter. At the Oct. 29 hearings on the 50th anniversary of the crash of 1929, held by the Kennedy-dominated Joint Economic Committee, "we'll make a stand against too-tight money," said a Kennedy aide. But Kennedy's real end in this, he added, was to press (as the alternative to a mere credit crunch) a full blown wage-price control "national incomes policy" now being secretly drafted by Kennedy's office.

Productivity and innovation

The lack of a coherent monetary policy notwithstanding, Kennedy has gone on to promise a score of programs he will never implement to recapitalize the U.S. economy. "The top priority on our economic agenda," Ted told the Investment Association of New York, "must be a major new national commitment to the twin goals of productivity and innovation. That means new incentives for savings and investments, for entrepreneurs and business firms." He listed seven initiatives, highlighted by advanced tax depreciation schedules for capital investment in industry, targeted tax incentives for new business ventures in high-technology, and tax breaks to encourage Japanese-style trading companies formed of joint ventures by corporations, banks, and marketers with federal assistance to sell U.S. products abroad. Apparently Kennedy's aides have been studying the LaRouche campaign for some pointers on what Americans view as a competent economic policy. When it was pointed out to one of Kennedy's CSIS advisors that those sweeping reforms would be difficult to implement under wage/price controls, he said, "it doesn't matter, as long as Kennedy appears to have a strong policy." Kennedy's policy will not only include a strong call for a U.S. export program but major U.S. support for the new European Monetary System, which he has already floated in April 16 and July 17 speeches on Europe, a Kennedy aide said recently. "The Senator sees the EMS as an applaudable innovation which will stabilize the dollar while stabilizing European currencies, "he said.

President Carter's own campaign advisor Robert Strauss, senior Democratic Senator Adlai Stevenson II, and Texas Senator Lloyd Bentsen are planning a "public relations campaign" on the U.S. export issue for this fall culminating in the conservative Bentsen's appoint-

ment as Kennedy's running mate, another CSIS source revealed. "Kennedy is shifting to the center and Bentsen will help a lot. Once Carter has authorized the new Department of Trade and Industry (DITI), Stevenson, who has been holding trade hearings, Bentsen the head of the Joint Economic Committee, and Senators Roth and Ribicoff who wrote the DITI legislation will come out attacking Carter's 1978 Export Task Force, call it a failure, and get a lot of press," he said.

—Kathy Burdman

John Connally: austerity ... maybe trade

Big John Connally has been pursuing some big contradictions in his new economic policy statements recently. Connally, as in his Oct. 22 dinner speech to the National Foreign Trade Council in New York, excerpts of which appear below, has a flashy new U.S. export expansion policy which he is using in a strong (and well taken) attack on the Carter administration for having "fumbled the ball" on trade. But at the same time, Connally and especially his advisors, have made the strongest endorsements of Federal Reserve Chairman Paul Adolph Volcker's stringent credit policies.

Connally was asked by Executive Intelligence Review at the Trade Council to resolve the contradiction between cutting off credit to the economy and strengthening the economy through exports, for which no credit finance would then be available. "I just disagree with the premise ... that Volcker's policies are hurting the economy," was his nonreply.

Readers may notice a similarity in Mr. Connally's conundrums to those of his supposed opponent Ted Kennedy in the accompanying article. Not accidentally, for Mr. Connally, too, is being closely advised by the Georgetown Center for Strategic and International Studies, whose "U.S. Export Competitiveness Project" director Dr. Michael Samuels shared the Trade Council podium with Connally on the 22nd. "We largely wrote Connally's speech," bragged a CSIS colleague of Samuels the next day. "Don't you think he's just beautiful out there selling it to the businessmen?" The CSIS man

was adamant as well on the formulation of "austerity, then exports." "We can only afford to export resources if we have a corresponding reduction in U.S. consumption here at home," he said, "and to enforce that consumption cut, you need credit cuts."

Further explaining Connally's incoherence is the fact that his "bold program of export expansion" is an attempted answer to the January 1978 Proposal to Expand the U.S. Export-Import Bank of Democratic presidential candidate Lyndon H. LaRouche, Jr. Connally, of course, has rejected the significant plank of LaRouche's proposal, a U.S. remonetization of its potential \$70 billion in gold reserves to create the liquidity to heavily finance a U.S. export blitz. This alone should tip off the corporate executive who might otherwise be attracted to LaRouche that Connally has no real intention of implementing an export program.

Connally's first priority in fact is (as he brags about having done it in August 1971 when he collapsed the U.S. dollar) to get top down control over the entire economy, including trade policy, and to squeeze it dry of credit. "I am proud of the dramatic and necessary action we took" then, he says. "International trade functions ... should be centralized ... directly into the National Security Council."

Then, with continuing tight credit, we might have some trade—to be wielded primarily as a weapon against our European and Japanese allies, says the Republican candidate. Connally proposes a North American Common Market of the U.S., Mexico, and Canada to exploit Mexican oil resources for "a new game plan designed to capture a larger market share in Asia," i.e., trade war against Japan.

'Credit crunch'

Connally may have complained in his \$30,000 campaign spot on CBS-TV on Oct. 31 about suggestions that Americans "lower our standard of living," the famous demand of Fed chairman Volcker before Congress the week before. But Connally has, in fact, backed Volcker all the way, starting with his Oct. 11 campaign kickoff speech to the Washington Press Club, where he endorsed Volcker's then fresh monetary cuts wholeheartedly, "provided that there also be fiscal restraints," that is, concommitant cuts in government spending. Connally todl Business Week on Oct. 22 that he supports Milton Friedman's proposal for a constitutional amendment requiring a balanced budget and a legislated lid on federal spending. In Connally's terms, that translates into across the board cuts in vital government programs.

"Connally sees inflation as the nation's number one problem," Julian Reed told a journalist recently. "We need a credit crunch and cuts in spending. Unemployment is necessary. We must knock the waste out of the economy."

Foreign trade is a national security matter

What follows are excerpts from John Connally's speech to the National Foreign Trade Council meeting held in New York City Oct. 22:

A few years ago, it was believed that the major changes seen in the world economy during the prolonged crisis between 1968 and 1975 resulted from what an OECD report called "an unusual bunching of unfortunate disturbances, unlikely to be repeated on the same scale..."

Today, we know better. It is now clear that these crises are not passing phenomena. There is no going back automatically to the prosperity of the past, and the policies of the past will not bring us a bright future.

The U.S. has now dropped from having the highest per capita income in the world, to having only the seventh highest. ... In light manufacturing and in certain industrial goods, the U.S. no longer has a trade balance in our favor. We are ailing to compete successfully with manufacturers in West Germany, France and in (a number of) newly industrialized countries. ...

The erosion of the dollar has been the result of aimless drifting in our international economic policy. ... Instead of a vigorous export policy, new disincentives to exports piled up. When the administration was ultimately forced to come up with an export statement, it consisted of little more than promises to study the issue.

In 1971, I advised President Nixon that the post-war era was over. We could no longer give away international markets as well as our own industries to Europe and Japan on the premise that they were still recovering from a war which ended a generation before.

As Secretary of the Treasury, I participated in the basic decisions which led to the devaluation of the dollar, and I am proud of that dramatic and necessary action we took. It is now universally recognized that the dollar, pegged to a fixed exchange rate for more than 20 years, was over-valued, and that devaluation was badly needed.

Today, our dollar is weak in part because we have not mounted an aggressive trade program to support it on the world market....

If we are to compete in this world, we have to mend our ways. Trade must be a very high governmental priority. Our President needs to be a person who understands the domestic and world economy and who is willing to devote his time to economic issues. . . .

One of the greatest single changes which has occurred in American trade has been the growth for U.S. products in this hemisphere. If we add our \$20 billion of trade with Latin America, our total trade in this hemisphere will total over \$107 billion, making the hemisphere, as a whole, our largest trading market.

I have proposed a North American Common Market that could unite the economic resources of Canada, Mexico and the U.S. This economic union would be a formidable trading bloc, with a combined GNP of \$3 trillion....

The North American Common Market that I foresee would be unique—not comparable to the Europeans. It would incorporate bold new methods for economic growth. We would integrate trade, investment, technological assistance and labor to mobilize our collective economic resources. This union would allow infant industries a measure of protection by developing sector-by-sector, region-by-region at a rate that is beneficial to all parties. If a North American Common Market is to work, it must work for all members.

President Lopez Portillo of Mexico put it best when he stated that the problem of energy cannot be isolated from questions of economic development, industrialization, migration, and a respect for the sovereignty and dignity of our neighbors. For this reason, such an approach must take into account not only Mexican oil and natural gas, but also a complete commitment by the U.S. to tailor its programs so as to further develop our markets for exports and encourage the reciprocal exchange of goods with our North American neighbors.

... The U.S. can no longer afford to be paternalistic. This hemisphere is our largest market. We need that market, we need to grow in that market and we need to assist these nations to develop more rapidly, in order to secure our own growth.

We must also take a new look at Asia. ... American trade has shifted from the Atlantic to the Pacific. ... We cannot afford to run the same tired old offense, but must develop a new game plan designed to capture a larger market share in Asia. ...

In a practical sense, this means we must quit designing products exclusively for Europe, and begin to out-Japanese the Japanese, and design products for the Asian markets. It also means that government, business and labor must cooperate to develop special programs and products to capture Asian markets. ...

We must field a team of Yankee traders composed of trading companies, finance and insurance groups, technical and logistic specialists; and be willing to launch any other activity that is required to capture these new markets. We must also back up our products with the new means of credit at a rate comparable, or better than, our competition. We should *never* lose a sale because of second-rate financing....

Recommendations

I propose that industries which invest in capital equipment to increase productivity should be allowed an accelerated depreciation write-off. ...

I propose a special investment credit be given to companies which reinvest profits in research and equipment to improve productivity or the quality of their products....

We must overhaul our trade law and agreements pertaining to technology transfer. ...

First, we need to remove the disincentives to exports which are only serving to divert sales from American companies to foreigners. Many of these disincentives, designed to achieve very noble objectives in such areas as human rights, environmental improvement, and tax equity, are not accomplishing the objectives for which they were designed and are depressing unnecessarily our foreign trade.

I also support legislation to make it possible for the U.S., like Japan, to have large trading companies at the forefront of our export drive. ...

To do this, we must increase both the funds available to the Export-Import Bank, as well as improve the efficiency of their operation....

We should expand our insurance protection for exporters comparable to the insurance coverage offered by Lloyd's of London. This expanded insurance program should be incorporated into the Exim Bank....

Serious consideration should be given to integrating the investment insurance program of the Overseas Private Investment Corporation (OPIC) and the development loan operation of the Agency for International Development into the Exim Bank to provide a comprehensive "one-stop" financing and insurance program better than those offered by other major trading nations.

To keep world trade a two-way street, we should insist upon strong enforcement of the new trade agreements. The next president should aggressively enforce U.S. laws to protect our industries and workers against unfair foreign competition. ... Better access to foreign markets must be a central part of our export growth strategy. I am for telling our trading partners that the U.S. expects the same access to their markets as they enjoy in our market. ...

The Carter administration has just fumbled the ball on trade reorganization. Bold directions were proposed by members of Congress and the business community who were fed up with the absence of a coordinated and ineffective trade policy. They fell on deaf ears in the administration.

We need to organize our efforts and talents to the task of promoting foreign trade. I would propose that the international trade functions within the federal bureaucracy should be centralized.

I propose that international economic policy should be integrated directly into the National Security Council system.

I propose that the Secretary of the Treasury, as the government's top economic policymaker, should become a full member of the NSC....

Jumping on to a sinking ship?

Ted Kennedy will formally declare his intention to seek the Democratic Party presidential nomination at a Boston press conference on Nov. 7, Stephen Smith, Ted's multimillionaire brother-in-law and campaign manager, announced Oct. 29. Democratic Party insiders were quick to note that Kennedy's already crumbling popular image was responsible for pushing up the announcement, originally scheduled for December, by five weeks.

With some alarm, the Kennedy campaign has begun a rushed drive to pick up as many deserters from the Carter camp—preferably with big names—as possible, by asserting that it's now or never for jumping on the Kennedy bandwagon. The most dramatic reversal came from Chicago Mayor Jane Byrne. Byrne had given President Carter her "wholehearted support" when he addressed a fundraising dinner to retire the Mayor's 1979 campaign debts on Oct. 15.

Always the gentleman

"I'm tired of screwing around with this," Ted had told a somewhat taken aback Washington press corps on Oct. 26, "I want to get going." Indeed, all the events around Mr. Smith's subsequent announcement show that the driving force behind it was the rapidly fading bloom on Mr. Kennedy's populist campaign. "It's not as if we're running scared," said one of the senator's "Draft Kennedy" workers this week, "but things have changed. People are beginning to ask 'where's the candidate,' and worse, 'what's his position on X?' And we have nothing to tell them."

Kennedy's lack of a believable position on anything has in particular made him "upset over the embarrassment caused him" by the defeat of the "Draft Kennedy" slate of delegates in the Oct. 13 Florida Democratic caucuses. Kennedy's lead over President Carter in the national polls has since then begun to erode steadily, leading to comments that his campaign is "peaking."

"The Kennedy for President Committee is now officially underway," said Smith in his announcement "This is a campaign, not an exploratory committee."

Heading up the Kennedy Committee with Smith are Paul Kirk and Carl Wagner, two Kennedy family campaign veterans. Marvin Katz, who will be Kennedy's finance coordinator, was borrowed from friendly New York State Senator Pat Moynihan's office.

The plans for the candidacy were finalized at a Kennedy "war council" in Boston over the weekend of Oct. 21, insiders say, which included Robert McNamara, head of the World Bank and former secretary of defense

under John Kennedy; McGeorge Bundy of the Council on Foreign Relations and Kennedy's National Security advisor; W. Averill Harriman, Kennedy's foreign policy advisor; John Kenneth Galbraith, Kennedy's economic advisor; and others.

At the meeting, the family counsel told Ted to get on the phone and get himself some national support ... fast. Kennedy did so, with a round of calls to major Democratic leaders nationally. "Join the campaign now, or you'll be left out," was his message, according to sources who said Kennedy was "stampeding" supporters.

Committed

The results of this pressure surfaced as the week began, with the most unprincipled sections of the Democratic Party the first to jump onto the leaky Kennedy ship. "In looking for alternatives, we Democrats are fortunate to have the bright star of the Democratic Party, Senator Edward Kennedy," said Chicago Mayor Jane Byrne in her surprise announcement. "He has already demonstrated his courage by being willing to challenge an incumbent," she added somewhat lamely.

Byrne broke a 30 year tradition of the Cook County (Chicago) Democratic machine when she and George W. Dunne, chairman of the Cook County Democratic Committee, urged that the county's delegates "should go committed to Senator Kennedy" to the 1980 Democratic National Convention. The Cook County delegation, following the tradition of the late Mayor Richard Daley, has gone to the convention uncommitted or behind a favorite son to better play for Chicago's interests in the final moments of the presidential nominating convention.

A similar splash into the Kennedy camp was made by Carter's leading Southern direct-mail fundraiser Morris Dees of Alabama, who defected to the Kennedy campaign on Oct. 26. Mr. Dees has no qualms, he told the *Baltimore Sun* that day. "You know me, I'm a liberal. I think Carter will be out of it in March anyway, after the Illinois primary."

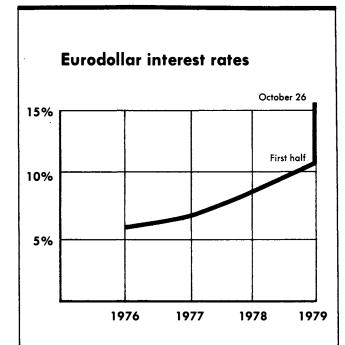
Prominent Carter Administration names quickly picked up by Kennedy over the last 24 hours include Ambassador-at-large Dick Clark, the former Democratic senator from Iowa and Ambassador to Mexico Patrick Lucey, the former governor and Democratic kingpin in Wisconsin.

Clark and Lucey are supposed by the Kennedy camp to be major potential factors in picking up large voting blocks for Ted in the crucial early Iowa caucus and Wisconsin primary. But they will have to run hard just to keep from losing Kennedy's current weak standings in the polls there. A Wisconsin commentator recently referred to the voters of that state, for example, as "too moral" for Kennedy.

—Kathy Burdman

Decoupling the developing sector

U.S. Federal Reserve credit policy means catastrophe for Brazil



Almost all of the money borrowed from private banks by developing countries and other borrowers for terms of over one year is indexed to LIBOR (London Inter-Bank Offering Rate). The interest payable for each semester on the loan is figured at some percentage (or spread) above the interest rate on loans between banks made in London at the beginning of the

While only about half of the developing country debt is specifically tied to the LIBOR rate, the interest rates on new fixed-rate, short- and long-term loans tend to rise in tandem with the LIBOR rates.

As the graph shows, LIBOR borrowers are now paying more than double the interest on their debt than expected when they contracted it.

Source: the IMF and the Financial Times. Oct. 27.

Brazilian Finance Minister Karlos Rischbeiter has warned that the Volcker-Fed policy of forcing up interest rates will have "catastrophic" effects on Brazil and other developing countries. Speaking in Paris on Oct. 8, Rischbeiter observed that each 1 percent increase in average Eurodollar loan rates in London costs Brazil almost \$500 million a year in additional interest on its \$50 billion in debt. Those rates have risen by 7 percent over last year's average. (See graph)

During the period immediately following the manipulated 1973-74 oil price increases, major oil-importing Less Developed Countries were encouraged to run up large debts to cover their oil import bills and other necessities. Now, with oil prices again going through the roof, the Council on Foreign Relations has decided that developing countries ought to be "de-coupled" from international credit and squeezed dry to pay their existing debts. Such genocidal policies have been effected for some years on the poorer countries, including most of Africa and Southern Asia. Now, even Brazilwhere Citibank earns more profits than it does in the U.S.—is being cut loose from the credit flow it needs.

Bankers will shuffle debt paper in order to mask the actual bankruptcy of Brazil. Its debt is so large that default would shake the whole Eurodollar system. But, in return for preserving the fiction of solvency, Brazil will be forced to put itself through the ringer. Its decimation will be reflected even more rapidly and hideously in the less well endowed nations of the Third

During the first half of this year, debt service alone consumed 83.9 percent of the money Brazil earned through its exports, according to figures released by the country's central bank. Repayments of loan principle were up 24.7 percent from last year, while interest even before the recent rapid rise in rates—was 65.9 percent more than last year. Brazil's debt profile is such that there is no end in sight to the spiraling of debt

As things stand now, Brazil will spend over \$11 billion of its \$15 billion export revenues on debt service, and will have to shell out about \$7 billion more just for oil this year. To cover its accounts deficits it will have to borrow about \$11 billion and run down its foreign reserves by \$3 billion.

'Brazil has no choice'

The need to borrow ever-increasing sums to repay past debts and cover current trade deficits (well over \$2 billion for Brazil this year) is the point of greatest vulnerability for developing countries.

The Anglo-American banking centers are therefore ordering Brazil to embark immediately on another round of accumulation against its own population and productive capital base in order to stop increasing indebtedness.

"Foreign Debt and Economic Growth in Brazil," a recent study by Chase Manhattan Bank's Brazilian affiliate Banco Lar, concludes: "Over the next several years, Brazil has no choice but to avoid dependence in large degree on foreign savings to finance capital formation. ... Substantial additional inflows would excessively tax Brazil's debt service capacity. ... Brazil will have to increase its domestic savings level" by reducing consumption, government services and productive investment. Therefore, Chase insists, Brazil will have to follow a low-growth path with radical austerity, a credit crunch against industry, and further cuts in wages. If Brazil devolves into a labor-intensive hell-hole devoted to exporting everything it can, and cutting fuel and food imports, Chase thinks that by 1985 it will be able to start reducing its total indebtedness.

No more 'miracles'

On the surface, Brazilian Planning Minister Delfim Netto abhors the monetarist demands of Chase, and of his predecessor, Mario Simonsen, that Brazil be put into a domestic recession in order to "fight inflation." No, says the economics 'czar', "the word 'recession' is not in the Brazilian dictionary. We must provide jobs for the 1.6 million youth who enter the labor force each year." Yet, Delfim's own "growth" strategy is a disguised way of meeting Chase's imperatives.

Delfim plans to prevent default on the \$50 billion in debt by raising exports from \$12.6 billion last year to \$20 billion next year, and \$40 billion in 1984. The trick is to get that kind of export boom without either borrowing heavily for the export industries and related energy sources, railroads, ports, and so on or allowing production costs (wages, fuel, raw materials) to cause comparable increases in imports. Delfim's solution is to focus "growth" on resettling populations onto the deficient soils of Brazil's vast interior, to pump out

quantities of soybeans and petroleum-substitute (gasohol) crops. Industrial growth will be limited to recycling Brazil's ample industrial base from domestic to exportoriented production and adding shifts where necessary to existing facilities. In order to contain the growth of indebtedness, Delfim plans to triage state sector investments and eliminate the subsidized credit which has facilitated industrial expansion.

Brazilians are starting to wake up to the fact that Delfim's clever schemes create a series of unsolvable contradictions. For example, metalworking magnate Paulo Mangels observed at an October roundtable on the export push that the low level of industrial investment in recent years will result in a lack of exportable merchandise to increase exports. Even the much-vaunted agricultural sector is loudly complaining about insufficient credit to finance any significant expansion. At the export roundtable, Brazilian Exporter's Association President Laerte Setubal pledged his support to Delfim's export crusade, but commented that triple the current volume of exports couldn't even be put on ships without quadrupling present investment levels in export infrastructure-something clearly impossible under budgetary constraints.

Maoist autarchy

The Economist of London has a number of suggestions for how employment and production can be increased while reducing Brazil's already low wage bill (now only 5 percent of manufacturing costs). Says The Economist: "One possible model for fuller employment is the pre-1960 Japanese free-market one; tiny village sweatshops or cottage workrooms where all members of the family make component parts for big urban capitalist factories, necessarily at well below Brazil's present legislated minimum wage of \$2 a day.

"An alternative system is communist China's system of village Keynesianism, by creation of a secondary local currency called the work point, and by village infant industry protection. The commune's old women and some children sit making sandals, and are paid in work points."

A U.S. State Department official who studied *The Economist's* slave-labor recommendation commented, "There's enough truth in it to make a valid argument."

The triage policy is not as simple as it sounds. A child from the slums asked Brazilian President J. B. Figueiredo what he would do if his father had to support a family on the minimum wage. Figueiredo answered with characteristic frankness, "I'd put a bullet through my noggin." The Economist recognizes, "If a squeeze was imposed on Brazil at present, with the Sao Paulo trade unions thinking they are about to celebrate an opening to populism, the consequences could be

Brazil's balance of payments

In billions of dollars

*projections

	1978		1979	
	Jan June	Jan June	Jan Dec,*	Jan Dec.*
Exports	12.7	6.8	15.3	14.5
Imports	13.6	7.5	17.2	17.2
Trade deficit	- 1.0	- 0.7	- 2.0	- 2.5
Service account deficit Interest on debt	- 4.9 - 2.7	- 3.7 - 2.5	- 6.0 - 3.5	- 8.5 - 6.0
Current account deficit	- 5.9	- 4.4	- 8.0	_ 11.0
Net capital inflow Foreign loans Foreign investments Debt amortization	9.8 14.0 0.9 - 5.2	2.7 5.5	5.5 11.5 1.0 - 7.0	1.2 - 7.0
Balance of payments	+ 3.9	- 1.8	- 2.4	
Total debt service	- 7.9	- 5.7	-10.4	-13.0
Debt service as a percent of exports	62.1%	83.9%	68.3%	89.7%

explosive." Even Delfim worries about his ability to force down the real wage level—even by using the statistical tricks he employed during the "miracle." "Nobody's going to sacrifice the political opening for the economy. It's much more probable that the economy will be sacrificed for the political opening."

Depressed markets

1978 figures and those for the first half of 1979 are from the Central Bank; the first column of 1979 projections are from Fundação Getulio Vargas and were compiled in July 1979; the second column of 1979 projections are the latest official and unofficial projections.

What if Brazil does manage to triple its export production, triage investments without collapsing production. and achieve London's suggestion of reducing wages to concentration-camp levels, without provoking a social revolution? Even with such new "Brazilian miracles," will there be a world market to buy those products?

This is a question that really panics the Brazilian authorities and their bankers. They fully expect that American industry and labor will respond to Volcker's depression with massive protectionist pressures that could limit or even eradicate the market for their manufactures, and force them to sell far below cost. The Brazilian Exporters Association is studying sophistcated ways of getting multinational corporations operating in Brazil to lobby in the U.S. against the protectionist measures. Other tricks are being prepared for attempting to increase exports under trade-war conditions.

Delayed detonation

When confronted with the fact that the bankers are intent on cutting off further credits, Brazilian officials smile stealthily and laugh, "You know we have them over a barrel. They need us as much as we need them. If we went under, so would they." There is substantial truth to this argument, and the Brazilians may be able to blackmail those bankers to keep stringing Brazil along so as to avoid default. For example, Brazil recently had no trouble getting 10 lead banks and 25 secondary lead banks to subscribe a \$1 billion debt roll-over loan, ostensibly for Brazil's "gasohol" program. But, coordinating-bank Morgan Guaranty confides that since Volcker issued his credit policy, they have had difficulty retailing loan participations to smaller regional bankers.

But prospects for avoiding a debt default even after committing national economic suicide are getting so dim that the pragmatic Brazilians could well jump ship.

Instead of just secretly threatening the bankers with blowing out the Euromarket if they don't cough up enough credit, the pragmatic Brazilians might soon realize that they could make better use of their substantial economic weight, by playing a leading role in creating a new monetary system.

"If our nation returns to the principles of the American System as laid down by Hamilton, our nation will rise from inflation and recession to resume the course which made us a great world power in former times. A depression is unnecessary."

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A Dope, Inc. kidnapping

Vhat's behind the Sindona affair?

Tuesday morning, Oct. 16, two and a half months after his Aug. 2 disappearance. Italian financier Michele Sindona reappeared in downtown Manhattan, with a three-week-old bullet wound in the leg. The case once again began making headlines in the world press, where it has most commonly been described as "mysterious."

Sindona had been scheduled to go to trial Sept. 10 on fraud charges in connection with the bankruptcy of Franklin National Bank in 1974. He is now free again on bail, awaiting trial set for Nov. 26; he faces similar charges in Italy. What lies behind his legal troubles, however, is clarified by the circumstances surrounding his kidnapping and release, which indicate that Sindona's enemies are the top management of the international druge trade: Dope, Inc.

A week before Sindona reappeared, the first arrest was made in his case—in Rome. One Vincenzo Spatola was arrested by Rome police while attempting to deliver letters from Sindona and his captors to Sindona's Rome attornev.

Spatola is from Palermo, where his family made its fortune speculating in the post-war construction boom which has transformed that city into one of Italy's ugliest. Their protector on the way up was Vito Ciancimino, a prominent Christian Democrat who in 1975 was the region's administrative counselor for the national housing agency. Ciancimino, a member of the Fanfani faction of the Christian Democrats, was the subject of an extensive report by the Italian Parliament's anti-Mafia commission of the early seventies.

The Spatolas are also known to be linked to the Gambino crime family in both Palermo and New York, and to its business partner "Tatuccio" Inverillo. This gang launders dirty money from kidnapping and drug operations, operating in Sicily and in the Milan area controlled by the PSI mafia. Two Italian magistrates flew to Palermo immediately after Sindona reappeared, placed Spatola's two brothers under arrest, and interrogated them at length on their businesses—concentrating on the family members' frequent trips to Milan, Switzerland, and New York.

Vicenzo Spatola's brother Rosario is now in the

Rebibbia prison in Rome. According to the Italian press of Oct. 20. Rosario Spatola was in New York when Sindona disappeared. Investigators are now attempting to reconstruct his activities during his visit. Latest rumors have it that Rosario Spatola attended a "Mafia summit" at an unidentified hotel in New Jersey, at which the Sindona affair was discussed. It is also known that Joe Gambino, the Spatola brothers' uncle, travelled from New York to Palermo and then accompanied Rosario to Milan towards the end of September.

Another person arrested in the Sindona case is Luigi Cavallo, an extremely shady character who has been

Who is Michele Sindona?

Born in 1920 in Patti, Sicily, Michele Sindona graduated from law school in 1947. He went to Milan, where Archbishop Montini, later Pope Paul VI, became his patron on the recommendation of the Archbishop of Messina. In 1959, Sindona founded the Banca Privata Finanziaria in Milan. with large deposits from the Vatican's financial arm, the Institute for Religious Works. By 1963, Montini had become Paul VI and Sindona became a member of the Church's committee of financial advisors. Sindona supervised the diversification of about \$2 billion in Vatican securities into U.S. firms, working with David M. Kennedy, then chairman of Continental Illinois Bank, later U.S. Treasury Secretary under President Nixon. By 1971, however, the Vatican had been involved in a losing legal battle with the Italian state, and came under increasing attack for the industrial development planning elaborated in Pope Paul's encyclical, Popolorum Progressio. Several of Sindona's major financial deals fell through. In 1972, he came to New York. Three years later he was almost ruined financially, and under indictment for fraud on both sides of the Atlantic.

involved in an attempted right wing coup d'etat in Italy and is known as a creator of "provocateur unions." Cavallo is said by Italian sources to have been considered both a CIA agent, and someone "very knowledgeable" on the terrorist Red Brigades. He was being investigated by Judge Emilio Alessandrini for links to both left-wing terrorist groups and the extreme right, before Alessandrini was murdered in January of this year.

Cavallo, according to the New York Times, was arrested in New York on Oct. 4 for entering the United States on a false passport. It emerged later that he was travelling with a journalist for the Italian newsweekly Panorama, whom he had promised to secure a "secret interview" with Sindona.

The Mafia, the CIA, the Red Brigades, right-wing Christian Democratic and Mafia-connected Socialist Party circles in Italy: These are the leads so far in the actual kidnapping. How about the Franklin Bank affair?

Sindona arrived in New York in 1972, having been more or less driven out of the Italian financial community following a series of bank failures in that country. Immediately upon his arrival, he was fleeced by Lawrence A. Tisch, chairman of Loew's Corporation, and a member of the board of Dope, Inc.

Tisch, according to New York Magazine, sold Sindona 21.6 percent of Franklin National Bank's stock, at the inflated price of \$40 a share, when the market price was \$32. What Sindona didn't know was that even \$32 was too high: Franklin had been hit by a series of disasters and had been losing money for at least two years. Based in Long Island, it made its fortune through loans financing the postwar suburban construction boom. When that ended in the mid-1960s, the resulting loan defaults started to drain Franklin's reserves. Then the bank was hit by a new state banking regulation allowing the big downtown banks to open suburban branches, meaning deadly competition.

Finally, in 1969, Federal banking regulations changed, requiring at least part of a bank's reserves to be charged against current income: by 1971 Franklin had lost \$7.2 million; and Tisch, a member of the Franklin board of directors, knew it. In fact, Tisch is now facing legal action by the Federal Deposit Insurance Corporation in connection with the sale.

Sindona's enemies in the press are equally slimy. The New York Times, for example, first attacked him after the 1974 collapse of Franklin Bank when Sindona was travelling throughout the country giving talks in universities on the international petrodollar market. In every article on the kidnapping, the Times—which editorially favors marijuana decriminalization—takes care to point out the "doubts" of the investigators about Sindona's story that he was kidnapped by Italian leftists who demanded money and information from him. In fact, the Times admitted in print on October 23 that it had flaunted the order by Judge Thomas Griesa that law enforcement officers could not talk to reporters about the Sindona case.

What does Dope, Inc. have against Sindona?

The drug running establishment on both sides of the Atlantic are the front end of a crew of bankers taking orders from the British and related aristocratic string-pullers in Italian finance, who have hated Sindona since 1969. In that year he joined the Vatican's financial advisory committee, and worked with Pope Paul VI on the financial end of Paul's development design as the Pope had outlined it in the encyclical Popolorum Progressio ("The Development of Peoples"). The plan for the industrial development of Italy and the Third World was considered a serious enough threat by the monetarist Italian banking establishment that they were determined to stop it, and ruin Sindona.

In 1968, the Vatican came under attack by the Italian banking authorities, and after losing several legal battles connected with its financial holdings, employed Sindona in the project of diversification. Sindona, working with David M. Kennedy, then chairman of Continental Illinois Bank, facilitated Vatican purchases of interests in major U.S. firms such as Colgate, Celanese, Chase Manhattan and Westinghouse. But, according to *New York* magazine, Sindona, a Sicilian, "could never break into the aristocratic financial establishment" in Italy, which "thwarted him in several major takeover attempts."

By 1971 Sindona was frustrated enough to decide to leave Italy. He came to New York City in 1972. In about two years, following a series of financial set-ups such as the Franklin operation, he had lost everything.

Moscow warns SALT is worthless if NATO 'modernizes'

Top Soviet leaders have warned that a NATO decision to go for an arms buildup in Western Europe would render the Strategic Arms Limitation Treaty (SALT II) meaningless as the arms control hallmark of U.S.-Soviet

This marked hardening of Moscow's line comes not only from military spokesmen, but also from leaders of the moderate faction around President Leonid Brezhney, which has staked its political identity on the pursuit of detente.

Vadim Zagladin, a Soviet Central Committee official, told the Italian Communist Party daily L'Unita Oct. 23 that the stationing of 600 new American Pershing-II and cruise missiles on European soil would substantially change the U.S.-Soviet strategic balance and violate the SALT II treaty. The missiles would for the first time be capable of reaching Soviet territory from Western Europe, and therfore Moscow views them as "strategic" weapons—roughly equivalent in military effect to a Soviet deployment of missiles in Cuba.

Zagladin and other Soviet spokesmen, including Defense Minister Dmitrii Ustinov and members of the Soviet General Staff, warned that the U.S.S.R. is prepared to take countermeasures and expects that danger of war to increase if the NATO modernization program takes place.

Ustinov, in an Oct. 25 Pravda article excerpted here, located the missile deployment as only one aspect of a global military build-up by the United States in every region of the world. It is the totality of the American strategic posture, involving multitudinous scenarios for "theater nuclear conflict," to which Moscow's tough stance is an answer.

Brezhnev himself delivered a tough speech Oct. 26, warning that Washington's strategic plans for the Third World, especially the dispatch of a "strike force" anywhere around the globe, would "create new dangerous hot spots, enlarge existing ones, and lead to a worldwide deterioration."

Soviet shift

Although Moscow has repeatedly criticized the proposed NATO modernization plans, as it denounced plans in the past for production and deployment of the "neutron bomb" in Western Europe, never before has this been branded a violation of the SALT II treaty.

The shift followed two weeks after the negotiating offers made by Brezhnev in an Oct. 6 speech in East Berlin, when the Soviets found Western responses grossly inadequate. The Soviet president announced a unilateral withdrawal of 20,000 Soviet troops and 1,000 tanks from East Germany, and offered to open up talks with the NATO countries on strategic nuclear weapons in Europe, including the Russian SS-20 missiles.

Shortly after Brezhnev made his offer, unidentified high-level Kremlin officials gave an interview to the Washington Post Oct. 10, saying that the Soviet leaders were "dismayed" at the U.S. reaction. President Carter and his administration dismissed the Soviet proposals as intended to prevent NATO from going ahead with its modernization plans, and as an attempt to split the NATO alliance. According to the Washington Post, the senior Soviet officials said that Brezhnev made his offers only after overcoming strong opposition from those in the Soviet leadership who viewed his move as an unwarranted concession to the West.

Now Brezhnev's policies are on the line. The Soviet Union's commitment to seeking detente with the West may be overthrown in favor of the belief that only fullscale preparation for war will ensure the U.S.S.R.'s security. This is the reality of Soviet strategic thinking, which neither "pro" nor "con" sides in Washington's debate over SALT address.

"Limited Nuclear War"

Moscow sees deployment of the 600 medium-range nuclear missiles as a NATO step towards the fantastical strategy of "limited nuclear war" favored by former Secretary of State Henry Kissinger, former Defense Secretary James Schlesinger, and others of their Anglo-American "geopolitical" school. A. Bovin, the top foreign commentator for the Soviet government daily Izvestia and a spokesman for Brezhnev's detente policy, wrote in an Oct. 20 article (see below) that the European missile deployment belongs strictly to the "limited war" doctrine.

Leaders in the West German government, whose approval of the NATO modernization plan is required for the deployment of the new missiles, similarly view the real issue as the "limited nuclear war" doctrine, a doctrine they emphatically reject. The disarmament spokesman of West German Chancellor Helmut Schmidt's party said this month that "any [Soviet] counterattack [in Europe] would inevitably be accompanied by a counterattack against the North American continent."

Criticism of Bonn

Yet despite Moscow's awareness of Bonn's commitment to a real detente in Europe—a commitment typified by the 1978 Schmidt-Brezhnev agreements that included both military detente moves and a 25-year economic cooperation program—the Soviets charge that Bonn is playing games with the dangerous NATO doctrines behind the 600-missile plan. Schmidt has repeatedly said that the NATO meeting in December should adopt a decision to begin the production of the new missiles, but should not deploy them unless negotiations with the Warsaw Pact on weapons reduction in Europe fail. Further, Schmidt insists that if the U.S. Senate does not ratify the SALT II treaty, West Germany will refuse to accept the NATO modernization at all.

Commentator Bovin in Izvestia treated the West German response to Brezhnev's proposals as better than the American one, but far from adequate.

In a domestic radio broadcast Oct. 16, Bovin went further, attacking as "pure sophistry" th idea that NATO might decide to produce the new weapons but not station them. He attributed this suggestion to Social Democratic Party official Egon Bahr, without mentioning that Schmidt and Apel, too, had drawn this specious distinction.

The generals speak

The fare offered up on Soviet domestic TV and radio over the past week was still stronger testimony of the chilling mood in Moscow. A parade of top brass, past and present, appeared before Soviet viewers to explain that things are getting worse.

On an Oct. 20 program, Lieutenant General Chervov from the General Staff of the Soviet Armed Forces said that if NATO deploys the 600 rockets, "the approximate parity between [NATO and the Warsaw Pact] in Europe will doubtlessly be upset in favor of NATO. That will mean a circumvention of the treaty between the U.S.S.R. and the U.S. In such conditions our country, like any other one, would have to take necessary measures to ensure its security."

On Oct. 17, retired Marshall Vasilii Chuikov, hero of the battle of Stalingrad during World War II, appeared on a national television program to say how NATO policies look "to me, a military man, who went with the troops from Stalingrad to Berlin." Evoking powerful images of 40 years ago, Chuikov predicted the much worse horror of nuclear combat if NATO's "modernization" is carried to its natural conclusion.

—Rachel Douglas and Susan Welsh

Using a peace treaty to prepare for war

Following Soviet President Leonid Brezhnev's Oct. 5 offer of substantial disarmament steps on the part of Warsaw Pact forces, President Carter set the standard for a spate of proposals linking Senate ratification of the SALT II treaty to NATO "modernization" in Europe, a policy which the Soviets are now denouncing as preparation for "theater-limited" nuclear war on the continent. At an Oct. 9 press conference, Carter argued:

"Our allies and we are carefully assessing the significance of President Brezhnev's statement. However I'd like to point out that what he's offering, in effect, is to continue their own rate of modernization as it has been, provided we don't modernize at all.

"They have had actual reduction in launchers the last few years. They've been replacing their old SS-4's and SS-5's with the SS-20, not on a one-for-one basis; the old missiles only had one warhead. The SS-20 has a much greater range. ... They have also replaced all older airplanes with the Backfire bomber.

So it's not quite as constructive a proposal as at first blush it seems to be. I think it's an effort designed to disarm the willingness or eagerness of our allies adequately to defend themselves. In my judgment the decision ought to be made to modernize the Western allies' military strength and then negotiate with a full commitment and determination mutually to lower armaments on both sides. ...

"I might point out that Chancellor Schmidt said, I believe yesterday or the day before, that a prerequisite to a decision by our NATO allies to take these steps, which he considers to be vital for the security of NATO, is the passage of SALT II."

Henry Kissinger, on the same day that Carter spoke, told the American Bankers Association convention in New Orleans that Brezhnev's speech was "designed to split our allies from the United States."

For this reason, he said, the strategic arms limitation treaty must be coupled with "significant increases" in U.S. military spending.

Ustinov views global **United States posture**

Exerpted from Soviet Defense Minister Dmitri F. Ustinov's article in Prayda. Oct. 25:

... There are forces who did not like the Soviet initiative. Leading circles, above all in the U.S., the Federal Republic of Germany, and Great Britain, are trying to avoid giving a concrete answer to it, and to belittle both the constructive steps taken and the proposals made by the Soviet Union. ... These circles are essentially trying to convince the international public, and above all the countries of Western Europe, that, no matter what, the NATO bloc should continue its senseless policy of arms buildup in Western Europe and move on to deploy there qualitatively new American missile systems....

We face a situation of growing aggressiveness on the part of NATO, with the U.S. calling the shots, and an activation of U.S. military preparations in various regions of the world.

The leaders of the U.S. verbally endorse the development of peaceful cooperation among states. ... But their practical actions often bear witness to the opposite; they heat up an atmosphere of fear, urge on the arms race, and openly conduct military preparations.

U.S. Defense Secretary H. Brown has openly declared that it is a goal of the U.S. to achieve military superiority of NATO over the Warsaw Treaty members by the mid-1980s. And it is specified that this means nuclear superiority, giving the U.S. "guaranteed annihilation potential."

Recently in the U.S. there have been lively discussions on the feasibility of inflicting a "preventive nuclear strike under certain circumstances," using strategic weapons against military targets in the Soviet Union. It is not very clear, given the present status of strategic nuclear arms ..., how responsible people can entertain the idea of such strikes, since it is completely obvious that a powerful counterstrike would inevitably follow.

How should the Soviet Union react to such statements? How should we take the assertions of highly placed U.S. representatives that "now the entire globe falls within NATO's sphere of interest?" It is clear even to people who are not military specialists, that these are not simply words. Behind them are concrete plans and scenarios for war against the USSR and its allies....

(In Europe) we see the forced rearming of all branches of the armed forces and types of troops with new weapons. There are huge stockpiles of arms and technology for U.S. troops being created in the Western European countries, for troops transported to Europe in so-called crisis situations. The combat capabilities of military transport aircraft and paratroops are being improved.

The Oct. 8 London Guardian responded by taking aim at West Germany: "After Mr. Brezhnev's latest intervention, the big question is whether Chancellor Schmidt will want to reopen West Germany's agreement to join in the modernization program before exploring the new Soviet proposals. ... But sources close to him suggest that he may be tempted to argue that, at a time of exceptionally weak American leadership, the European members of the NATO alliance must take seriously both Mr. Brezhnev's proposals and his threats. ... '

By last week, Anglo-American rejection of Mr. Brezhnev's proposals had hardened into openly linking treaty ratification and military buildup. From Oct. 22-26:

- Senate Foreign Relations Committee unanimously voted to adopt a decision that nothing in the SALT II treaty will prevent the United States from continuing to help NATO countries with conventional and nuclear military assistance;
- Senate majority leader Robert C. Byrd of West Virginia endorsed the treaty, issuing a 5,000-word statement on how rejection of the accord would

increase the possible hazards to U.S. security by removing any limitations on Soviet arms development. Byrd also declared that he had obtained a written assurance from President Carter that the United States will proceed with the development of the MX mobile missile.

- Defense Department officials report that the Carter administration is considering a \$20 billion increase in the military budget for fiscal year 1981. Part of the increase would go to development of a 100,000-man "rapid-deployment force" for use in the Middle East or other "hotspot" regions. A final decision on the budget increase is expected to be made early in November.
- The New York Times reported that the Carter administration is seeking approval from NATO allies to withdraw up to 1,000 old-generation nuclear weapons from Western Europe, in order to clear the way for NATO's adoption of the U.S.-backed "modernization" program. Officials said that this proposal was discussed by White House deputy assistant for national security David L. Aaron during his recent trip to Europe.

Europe is not an exception. The U.S. military presence in Japan is being stepped up. NATO is considering the possibility of supplying modern weapons to China and is helping the military preparations of Peking which are directed against neighboring states. In the Middle East, there are efforts under the U.S. aegis to put together a new aggressive alliance involving Israel, Egypt and several other countries. The formation of a hundred thousand-strong "rapid response force" is in full swing; it is intended for carrying out "punitive functions". The U.S. is developing a permanent fleet in the Indian Ocean, despite the protests of states in this region. Thus the facts show that NATO and the U.S., covering themselves with a non-existent "Soviet military threat," are unflaggingly building up arms aimed against the Soviet Union.

At the base of the decisions which the U.S. is forcing upon the NATO bloc lies reliance on force as the main means of carrying out an imperialist policy. The result of such a development would be not only the destabilization of relations between the U.S. and the USSR, but also general instability in the world and the absence of a clear perspective for peace.

NATO 'in the grips of inertia'

In these excerpts from an Aleksandr Bovin article in Izvestia, Oct. 20, a top Soviet political commentator assesses the "Euromissile" debate.

The main reasoning of the Americans (with respect to the deployment of 600 Pershing-II and cruise missiles in Europe—ed.) rests on their conception of "limited" war in Europe. Washington supposes that a hypothetical conflict in Europe could be localized through an exchange of nuclear missile strikes in the so-called European theater of military action. In this war, the territory of the U.S. would be spared destruction. The Americans may of course console themselves with such suppositions. But why this should satisfy their European allies, who are deliberately put in the position of a target, is not at all clear to me. Nevertheless, NATO experts recommended to their governments in early October to accept the American plan....

Strategic or, if you will, Eurostrategic equality, which has come to be on the continent some time ago, is a very delicate thing. The armed forces of the two military-political groupings have different structures. One side may have more of one thing and less of another. ... And only consideration of the situation as a whole makes it possible to see the overall equality and balance of forces....

Furthermore, the balance of forces in Europe cannot

be separated from the overall balance of strategic forces. Our medium range rockets cannot strike targets on U.S. territory and therefore they are not taken into account in SALT II. The American missiles slated for stationing in Western Europe are not counted in the established limits either, although they can strike targets on our territory and are intended to do just that....

London is marching in step with Washington. The reaction of the Tory government is the same: give the new rockets!...

In the reaction in the Federal Republic of Germany (FRG), it seems to me, there are more nuances and more concern about the consequences of the proposed decision. ... (In an interview to the London Economist) the FRG Chancellor rejects the myth of the "Soviet threat".... True, it seems to him that we have "overdone it" in regard to the firmness of our defense; but each has his own experience and a representative of the FRG should understand this perhaps better than others. ... It would seem that there is a full basis for mutual understanding. And yet the responses to L.I. Brezhnev's speech show that the inertia of traditional NATO representatives keeps the FRG from seeing the world without bias....

Politicians are stressing that the decision on "modernization" will not be isolated ... that simultaneously NATO will call on the East to open talks on reducing the corresponding nuclear missile systems.

But insofar as the natural framework for discussing "Eurostrategic arms" is considered to be SALT III, a curious relationship exists between the ratification of the SALT II treaty and the proposed NATO decision on "modernization." FRG Defense Minister Hans Apel expressed this dependency: "The SALT II treaty should not be defeated. This would cause a political crisis in NATO. ... If SALT II is not adopted, then NATO will not make any resolution." One of course cannot fail to welcome Western Europe's support for SALT II. But at the same time, in the given political context this reference to SALT II and SALT III serves as a sort of shock absorber to soften negative reactions to NATO's dangerous plans.

In an October 16 radio commentary, the same commentator said:

(In) another example of what one might call these shock absorbing lines of reasoning, Egon Bahr, the secretary general of the Social Democratic Party of Germany said. ... "At the NATO session the question to be resolved will not be one of deployment, but of the manufacture of medium range weapons. The manufacture of these weapons is not contained in Brezhnev's remarks." ... Such an interpretation of Comrade Brezhnev's words is pure sophistry. ... If the weapons are produced, they are in effect begging to be deployed on site.

AFL-CIO wants 'equality of sacrifice'

A spokesman for the AFL-CIO said last week that the labor federation wants the immediate imposition of full economic controls on the American economy.

Rudy A. Oswald, the AFL-CIO director of research, said that while the AFL-CIO is opposed to Federal Reserve Chairman Paul Volcker's tight-credit policies, the federation acknowledged the need for an austerity regime in the United States to "control inflation." Volcker's policies, said Oswald, were "ill-advised" because they violate the principle of "equality of sacrifice." Since "somebody must suffer," said the AFL-CIO research director, "then everyone must share the burden of sacrifice equally."

To "put the economy back on the right track," the AFL-CIO wants President Carter to fully implement the Credit Control Act of 1969. Under the provisions of this act, which was sold to the Nixon administration by a combination of London-Wall Street allied individuals, including John Connally, the economy would be put under wage and price controls.

This is a long-standing demand of the AFL-CIO, especially those officials around Secretary Treasurer Lane Kirkland. Last week, Kirkland attacked Volcker's credit policies and called for more "equality of sacrifice."

The Credit Act of 1969, which can be implemented as an emergency measure without further congressional action, would enable Volcker to go beyond his interest rate hikes, to place controls on the allocation of all domestic credit. Volcker would then have absolute control over which industries would survive or collapse.

Oswald, who professes to "need lots of advice" on monetary matters, has published articles that state that the future strength of the American economy is based almost solely on the nation's ability to "make sacrifices."

While Oswald saw the AFL-CIO's proposal as "countering Volcker," other sources disagreed. A spokesman for the American Banking Association said that the Federal Reserve would welcome full credit controls and the imposition of the 1969 act. Other sources pointed out the strange irony of the AFL-CIO demanding even more stringent austerity than the Fed chairman.

"It's going to help him (Volcker)", said one source. "It makes it appear that there is popular pressure building for him to go further—toward more controls."

Oswald reports that the AFL-CIO relies heavily on outside sources for their economic positions. "We like to use Brookings Institution and groups like that." Brookings is the source of much of the antilabor policy of the last 40 years.

"The labor movement fully agrees that there must be pain and sacrifice to deal with inflation," said one AFL-CIO official. "We want to make sure that it is spread around."

What Fraser is doing to the UAW and Chrysler

In exchange for his seat on the Chrysler Board, UAW head Douglas Fraser agreed to a contract for Chrysler workers that will give Chrysler UAW members \$203 million less in the next two years than other auto-industry

workers. Not only did Fraser agree to a tiny 3 percent annual pay increase, which at today's inflation rates means a large slash in workers' earning power, but the increase itself will be delayed six months in the first year and for several months in following years.

At the same time, cost-of-living increases earned by Chrysler workers under their old contract will be delayed until December 1980, and thus will not be considered in the base pay of Chrysler employees. The new cost of living escalator agreed to was a mere 1-cent-an-hour increase in pay for each three-tenths of 1 percent increase in the Consumer Price Index.

The contract also allows Chrysler to defer payments into the union pension fund, eliminating part of already slated pension increases for Chrysler pensioners. At congressional hearings several days before the announced agreement, Fraser also offered to loan almost all of the Chrysler workers' \$850 million pension fund to the company with government guarantees.

Fraser will use his seat on the Chrysler board to oversee the dismantling of the nation's third largest automaker. This open opponent of advanced technologies like nuclear energy has already said that he does not care if further environmental restrictions are placed on the auto company.

Sources in the banking community say that the Chrysler-UAW deal can serve as a model for the "depresssion contract." "The union has been very understanding of Chrysler's financial plight and has worked very hard at making certain concessions here," declared William O'Brien, who headed the Chrysler negotiating team.

-Lonnie Wolfe





Kepeal of Regulation Q, sweeping banking reforms pass Senate

By a vote of 37 to 58, the U.S. Senate failed to pass a "killer" amendment to H.R. 4986—the bill to "deregulate" into oblivion the savings and loan industry in the United States. The amendment was introduced by Senator Robert Morgan (D-N.C.) who charged that H.R. 4986 should be known as the "Federal Depository Institutions Abolition Act,' because its provisions set the conditions for savings and loan institutions to evolve into or be bought by commercial banks.

In addition, the legislation abolished "Regulation Q," essentially an anti-usury provision within the body of savings and loan institution regulations. Morgan pointed out that between the repeal of Regulation O and the other provisions of the bill, mortgage money (whose major source is savings and loan institutions) would either become prohibitively high or simply disappear altogether.

The Morgan amendment was defeated Oct. 31, when key Republicans such as Jake Garn (R-Utah), the ranking Republican on the Senate Banking Committee, failed to support Morgan. The amendment would have returned the bill to the original House-passed version, before the Senate Banking Committee added the sweeping changes described above. Capitol Hill sources report that there is a good chance that the House will refuse to accept the Senate changes, and force a return to the original version in the House-Senate conference.

bill, the Senate passed by the lopsided vote of 73-13, an amendment which repeals by federal mandate the usury laws on the books of 17 states. Introduced by Mississippi Republican Thad Cochrane, the vote represents a total capitulation to the high interest-rate policies of Federal Reserve Board Chairman Paul Volcker. Panicked because the combination of usury laws in 17 states and the high interest rates mandated by the Fed is essentially prohibiting mortgage lending in these states, the foolish Senate chose to uncap local interest rates. rather than to prohibit the destructive policies of Volcker.

≠ongressman asks Fed: why not two-tiered interest rates?

In hearings on Oct. 30 before the Subcommittee on Access to Equity Capital of the House Small Busines Committee, Subcommittee Chairman Henry Nowak (D-Buf.) demanded to know why the Federal Reserve Board could not institute a two-tiered interest structure for small businesses. Federal Reserve Vice-Chairman Frederick Schwartz replied that the Fed is trying to "convince" bank to continue lending to small business—by using "moral persuasion."

The hearings were called in response to an outcry by small businessmen—and the National Small Business Association in particular—over the destructive effects of the Oct. 6 tight money moves by the Federal Reserve In earlier action on the same to institute a two-tiered discount is, additionally, attached to a meas-

rate on federal funds which work by having the Fed lend to banks at 3 percentage points below the discount rate for certified small business loans. The NSBA noted that de facto two-tiered policies have been in effect in the past, but that their proposal was the first to suggest an incentive by the Fed to ensure usage of such a system.

Referring to Federal Reserve Board Chairman Paul Volcker's Oct. 23 letter asking banks to continue lending to small business and other productive customers (as opposed to those engaged in speculation). Nowak asked Schwartz. "How can the Fed mandate the Oct 23 letter?" Schwartz replied that the Fed had neither the inclination or the ability to mandate such a policy.

Nowak countered with a reference to the de facto two-tiered policy which existed at the Fed during the 1973-1974 period and which was part of Nixon's wage-price package and asked why the Fed could not institute this again. Schwartz replied, "We are attempting to do that through moral persuasion." Nowak, in apparent exasperation concluded, "Well, if you could formalize the two-tier system. perhaps this would give the banks a little more "moral persuasion"."

Senate okays oil import curb

By a vote of 70 to 23 the Senate adopted Oct. 30 a proposal giving the President power to impose quotas or fees on imported oil, without prior House and Senate authorization. The oil import authorization

ure extending the antitrust authority of the International Energy Agency.

While not requiring the President to seek prior Congressional approval for his actions, the bill does allow Congress, by vote, to kill the quotas or fees, which in turn could then be vetoed by the President and overridden only by a twothirds vote of Congress.

The week before the vote, the Senate Energy Committee had endorsed a bill providing for more stringent control over the President's actions. That bill requires that both Houses first approve any quotas or fees over imported oil. After the Energy Committee vote, Senator Bennett Johnston (D-La.), chairman of the subcommittee with jurisdiction over U.S. import policies, met with Deputy Energy Secretary John Sawhill to work out a compromise in light of the administration's objections to the Energy Committee bill. Senator Johnston agreed to the legislation that was adopted by the full Senate and declared later that he had done so to avoid giving the President "a credibility problem." "This is a recognition and a vindication of the President's authority," he stated. The measure now goes to the House.

Alaska lands bill passes Senate committee

The Senate Energy Committee on Oct. 30 voted 17 to 1 to send to the floor a version of the Alaska lands bill that would prohibit any form of development and exploration on more than 25 percent of Alaska's land area. Earlier this year the Hou- has just released a 10 year study of

se passed a bill that was an environmentalist's dream, keeping over 33 percent of Alaska's territory from being developed.

Senator Paul Tsongas (D-Mass.), a close ally of Senator Kennedy, was the lone dissenting vote on the committee. Tsongas made clear that he does not think the strongly antidevelopment bill goes far enough, and indicated that he intends to strengthen the bill's limitations on developing the Alaskan wilderness when it reaches the Senate floor.

Last year, Senator Mike Gravel (D-Alaska) prevented any bill limiting Alaska land development from passing the Senate by a filibuster on the final night of the session. Senator Gravel declared after the Energy Committee vote that he will not agree to any limit on debating this latest version either.

Capitol Hill sources expect the Senate to put off review of the bill until the SALT debate is over. Once passed by the Senate, a compromise committee will have to draft a final version of the House and Senate bills.

D econcini opens drug enforcement hearings

Senator Dennis Deconcini (D-Ariz.) opened hearings to probe the inadequacy of federal law enforcement in narcotics trafficking. In testimony before the Senate Appropriations Subcommittee on State, Justice, Commerce and the Judiciary Oct. 25, the panel heard from the head of the General Accounting Office. Elmer Staats, whose office

federal narcotics enforcement problems.

Deconcini is using the subcommittee hearings as a springboard to gain acceptance for his proposal to create a Senate select committee on narcotics, modeled on the select narcotics committee in the House. Unlike the House committee. Deconcini's proposed committee would not deal with questions of the medical effects of dangerous drugs, or deal deeply with the question of organized crime (allegedly for jurisdictional reasons.) A source close to Deconcini reported that the Senator is most interested in making the federal narcotics enforcement bureaucracy more effective in terms of coordination within the federal sphere, and coordination with state and local enforcement entities.

Opposition to Deconcini's proposal has come from both Sen. Sam Nunn (D-Ga.), chairman of the permanent subcommittee on investigations, and from Sen. Joe Biden (D-Del.), chairman of the Senate Judiciary Committee's subcommittee on criminal justice. Whether Biden and Nunn oppose the proposal on the basis of turf, or whether they see in the Deconcini moves, an attempt to seriously change or downgrade such entities as the Drug Enforcement Administration remains to be seen.

Deconcini intends to hold hearings during the first week of November to hear from the federal agencies which were criticized by the GAO, and then proceed to local hearings in Florida and Arizona to hear from field agents.

> —Barbara Dreyfuss and Susan Kokinda

TACTS BEHIND TERRORISM

Kooks, death threats and the occult

A cross-gridding of a series of telephone death threats against Lyndon LaRouche, a Democratic candidate for President, has turned up a network of intelligence agency-controlled lunatics who are self-described as the "Underground." It's individual members span such seemingly diverse political groups as the Jewish Defense League, the Hitlerian National Renaissance Party, and the Ku Klux Klan. Transcripts of conversations of individuals involved in communicating these threats confirmed that regardless of whether the person was a Nazi or a member of the JDL, his primary identity is that of a follower of the occult.

The tracks of this bizarre terrorist network began to emerge on October 25 when 20 to 30 death threats per day were phoned into the New York offices of Campaigner Publications, the primary publisher of LaRouche's political writings. Exemplary was a man who called himself "Mr. Kill-LaRouche." The caller said: "You f-ing Nazi. You're going to die, you are going to die." On other occasions the caller whistled the death march and made gunshot noises, identifying himself variously as the Jewish Defense League or the Jewish Anti-Nazi Squad.

At the same time that the threatening calls were being received, another series of calls began from an individual using different names and claiming to be a member of the Ku Klux Klan and a follower of Adolph Hitler. This

individual exhorted personnel at Campaigner to bring "White Justice" to the "kikes and niggers." From voice recording of a later call, known to have originated from the New York headquarters of the Jewish Defense League, a young man, who identified himself as Mordecai Levy and made threats to "eradicate the Labor Party," was established to be the same caller as the anonymous Hitlerite.

Kooks and Cultists

The investigation of the mysterious calls has so far centered around the names of three individuals. At least two of these individuals are known to be followers of the occult and have functioned interchangeably in extremist "Zionist" and "Nazi" groups. The first of these, Mordecai Levy, has been exposed in this publication (EIR Vol. VI, No. 21) as an operative of the American Jewish Committee who was caught in Philadelphia last February organizing a rally of the Nazi Party. This incident created a minor scandal when it was revealed that Levy was head of the "New Jewish Defense League," a group which is credited with several bombings of Egyptian and Soviet diplomatic facilities in New York City.

•The second, one Phyllis Rose who is politically associated with the Nazi Party and the John Birch Society, is a self-acclaimed follower of Madame Blavatsky's occult doctrine, and a member of the Ishkite cult. Members of certain Nazi organizations in New York

City have claimed that Rose controls them through "occult powers."

Another name frequently mentioned in the threatening calls was Gary Goch, who is currently on trial for criminally assaulting an organizer for the LaRouche presidential campaign. Goch is best known, however, for his role as associate producer of the film, Murder by Decree, which asserts that the Jack the Ripper murders were carried out by high ranking members of the occult Scottish Rite Masonic Order in Britain to protect the British Royal Family!

One as yet unexplained anomaly in this investigation is the explicit reference by Phyllis Rose and by one Kalev Pehme, to their membership in an "Underground" which studies and penetrates cults in collaboration with the Mossad (Israeli intelligence).

We do know that occultism has long been used as a weapon of political intelligence. Exemplary is Dr. Yuval Ne'eman, founder of Israel's Military Intelligence and "father" of Israel's nuclear weapons capability. Ne'eman has been credited by noted author on intelligence operations, Richard Deacon, as also founding "psychic espionage," that is, a proliferation of research centers for "parapsychology"-ESP, etc.-which attract kooks who can then be screened and deployed for intelligence purposes. Exemplary is Ira Einhorn, the Philadelphia occultist, said to have "psychic powers," who recently made the newspapers when he murdered his girlfriend, shellacked the body to preserve it, and kept it in his closet for 4 months. Einhorn, among other things, was a close associate of Gen. George Keegan of Air . Force Intelligence (Ret.) who helped Ne'eman obtain nuclear secrets for Israel.

Britain earning 'price hawk' reputation

The government of Margaret Thatcher has announced that, effective immediately, oil output from the North Sea's largest oilfield, Brent field, will be cut by 10 percent. The British Energy Ministry's official reason is that wasteful gas flaring which accompanies the oil pumping must be reduced to conserve valuable natural gas reserves.

But industry sources concur that the move was timed to escalate the speculative upward spiral in the price of oil on international spot markets. The British National Oil Company (BNOC) earlier this month sparked a series of competitive price increases for high-demand light crude from producers both inside and outside the oil cartel, OPEC. North Sea producers also triggered the early 1979 pricing bubble on the spot markets following the collapse of Iranian oil exports.

Said one New York oil analyst, "Britain is getting a reputation as being an even bigger price hawk than the hawks in OPEC." According to the Wall Street Journal on Oct. 26, Britain has announced that it will again raise its prices for North Sea crude if Nigeria, which produces a comparable grade of oil, enacts a price hike. Nigeria, in turn, is expected to follow the lead of Algeria and Libya: both raised their prices to nearly \$27 a barrel last week in response to the initial announcement of a price increase by BNOC.

This "leapfrogging" of oil prices has already induced Iraq, Iran and Kuwait to up their prices as have the non-OPEC producers,

the Soviet Union, Angola and Mexico. If the spiral is not broken, it will mean a sure price hike by OPEC come the mid-December price-setting meeting, diplomatic sources see going to \$30 a barrel. From that level another spiral on international markets will take the price of oil to the \$60 a barrel level in speculative trade.

Both Royal Dutch Shell and Esso (the European affiliate of Exxon) have stated that the reduction of North Sea output will only force these companies to step up competitive bidding for oil on the spot market. The Financial Times, Oct. 30, reports that Shell predicts a possible shortage of petroleum products, notably heating oil and gasoline, in Europe as a result of the shut down of production.

Europeans plan strategy

Standard and Charter bank reports that the governments of France and Germany are displeased with the well known tactics by London to drive up oil prices. According to a U.S. source, France and Germany are reportedly seeking to bring North Sea oil surpluses under EC jurisdiction and keep prices to Europe within reason.

All of the continental European nations are in varying degrees dependent upon refined products from the massive Amsterdam-Rotterdam-Antwerp refining and import center. It is the so-called Rotterdam spot market which has been the center of rapidly expanding speculative oil trade throughout 1979. As this magazine reported last week, as early as 1978 the major international oil companies began to oust the smaller oil traders and refiners from the competitive spot market at the same time that the multis began to allow intercompany (third party) contracts to lapse—forcing many oil concerns with no productive capacity to increasingly depend on the spot market for vital crude supplies.

Many countries which have disciplined their national oil companies to stay out of the spot market are now (out of desperation) bidding for crude and petroleum products at skyrocketing prices. This is the case in France and in Japan, both hit with a spate of third party contract cancellations by the multis which is predicted to cause an oil shortage this winter.

Les Echos reported last week that the French government is fearful that many of the French concerns currently bidding for petroleum will not be able to continue competing given the average Rotterdam selling price of between \$40 and \$50 a barrel for crude. France, reports Les Echos, is aware that the multinational oil companies are leveraging the market and certain hawkish OPEC producers such as Iran are aiding in this deadly conspiracy. What is promised by this conspiracy is a cold winter for the consuming nations.

—Judith Wyer

WORLD TRADE REVIEW

New trade deals

COST	PRINCIPALS	PROJECT / NATURE OF DEAL	FINANCING	STATUS
\$1.8 bn.	Egypt from West Germany, Austria, and France	Siemens of West Germany and Austria, and Thomson CSF of France will build a telecommunications network.	NAv	Contract signed mid- September
\$1.56 bn.	Egypt from Austria and other European countries	Austrian and European countries may build a 600,000- unit housing project.	Still to be worked out.	II
At least \$500 mn.	Hungary/Austria	Hungary may use Austrian credit to build a brown coal power plant, then export electricity to Austria.	\$500 mn. Aus- trian credit.	II
\$240 mn	Sudan from various countries	Electric power generation expansion including thermal and hydroelectric plants and transmission stations.	DM 50 mn. credit from West Germany; others in pro- cess	
\$121 mn.	USSR from Italy	Olivetti will supply its equipment and know-how to the U.S.S.R. and Comecon markets for three years.	NA.	Agreement signed Oct. 24, 1979
\$41 mn.	Angola/France	Elf-Aquitaine will invest funds in oil exploration over three years.	NAv	1
\$7.56 mn.	Libya from U.K.	Two gas turbine power plants have been ordered from John Brown Gas Turbines of Clydebank.	NAv	I
	West Germany/People's Republic of China	Six-year joint economic cooperation pact, providing framework for exchange of patents and licenses, and for joint ventures, including work in exploiting raw materials.	NAv	Pact signed Oct. 24 by two countries' Foreign Ministers
				`

Abreviations:

U = Undetermined
NAp = Not applicable
NAv = Not available

*Status:

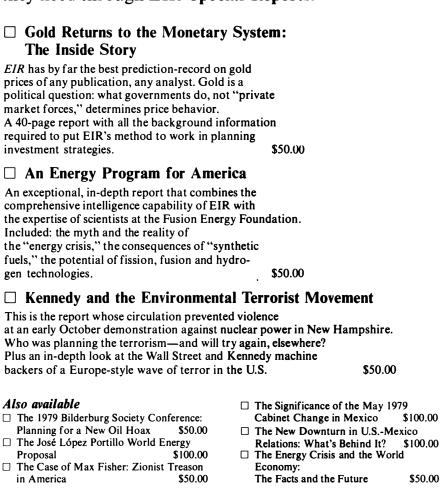
II = signed, work in progress
II = signed, contracts issued
III = deal signed
IV = in negotiation

V = preliminary talks

EXECUTIVE INTELLIGENCE REVIEW

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			400
Gold	October 26	374.00	380
London afternoon fixing	29	374.00	360
	30	377.60	340
	31	382.00	
	November 1	378.50	320-
			300
			9/14 9/21 9/28 10/5 10/12 10/19 10/26 11/2
			9/14 9/21 9/28 10/5 10/12 10/19 10/26 11/2
The dollar	October 25	1.8018	
in deutschemarks	26	1.8045	1.85
New York late afternoon	29	1.8092	
	30	1.8068	1.80
	31	1.7975	
			1 _{1.75} 9/14 9/21 9/28 10/12 10/19
The dollar in yen	October 25	234.10	230
New York late afternoon	26	234.43	
	29	236.05	210
	30	238.90	200
	31	236.80	190 -
			9/14 9/21 9/28 10/5 10/12 10/19 10/26 11/2
The dollar	October 25	1.6595	
in Swiss francs	26	1.6665	
New York late afternoon	29	1.6790	ااا المحمر
	30	1.6735	1.60
	31	1.6465	
			9/14 9/21 9/28 10/5 10/12 10/19 10/26 11/2
The Dutatal			9/14 9/21 9/28 10/5 10/12 10/19 10/26 11/2 2.30
The British pound in dollars	October 25	2.1445	2.25
New York late afternoon	26	2.1110	
	29 30	2.0935 2.0605	2.15
•	30	2.0825	2.10
	31	2.0023	9/14 9/21 9/28 10/5 10/12 10/19 10/26 11/2