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1981 defense budget: build up or bluff
Why is Civiletti letting out the terrorists?
Countdown for war on the European battlefield

**LaRouche-Riemann model forecasts:
Can the U.S. economy survive?**



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EIR

From the Editor-in-Chief

No one denies these days that the U.S. economy is in trouble. How deeply in trouble, however, is the crucial question.

David Rockefeller stated several weeks ago that “no real recovery is possible until there is a real recession.” This announcement amounted to plans to plunge the U.S. economy into “controlled disintegration.”

But is the economy physically capable of recovering from this first stage of depression, and if so, under what conditions?

Our Special Report this week—“Can the U.S. economy survive?”—answers this question scientifically, employing new breakthroughs in the LaRouche-Riemann economic model. The report, developed under the direction of Dr. Uwe Parpart, was written by Economics Editor Dave Goldman, Dr. Steven Bardwell, and Leif Johnson. This three part survey includes the first publication of indices developed for the model which allow a systematic treatment of depreciation and capital formation. This new refinement creates a greater capability for studying any economy from the point of view of “thermohydrodynamics,” a term coined by Lyndon LaRouche to describe the subtle combination of energy/technical processes with financial and investment activity by which the time evolution of a national economy must be understood.

The description of the U.S. economy in these terms gives ample cause for alarm. Leif Johnson’s “The 1980 recession: unlike any other,” fills in more of the dismal picture.

Our Military Strategy Report, “The new defense budget: build up or bluff?” is a must for all readers looking for an insight into the hows and whys of Carter’s spectacularly humiliating military intervention into Iran.



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Special Report



Photo: SYGMA

16 LaRouche-Riemann model forecast: Can the U.S. economy survive the depression?

David Rockefeller recently said: "There is no possibility of recovery without a real recession." The LaRouche-Riemann econometric model has now proven the opposite: There is no possibility of an indigenous U.S. economic recovery if present recessionary policies continue for even six more months. A thorough report, by Dr. Uwe Parpart, Dr. Steven Bardwell, David Goldman and Leif Johnson.

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To our readers

No, you have not missed an issue of *Executive Intelligence Review*. This is Volume 7, Number 17. With this issue, we have instituted a new dating procedure.

Executive Intelligence Review



A Manhattan Project Approach to Economic and Political Intelligence

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- a new gold standard?

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By the laser's red glare

A senior U.S. military analyst who prefers to remain anonymous has provided *EIR* with the following account of the first visit by a group of newsmen to what the U.S. Army claims is its most advanced training base in the country.

* * *

Camp Lewin is "the wave of the future," according to the Army's official press packet; "the first base completely devoted to the best behavioral, managerial, and budgetary techniques known to modern science."

As our Army bus drove up to the parade ground at the center of the base, I noticed a master sergeant wearing the peaked hat of a drill instructor standing before a line of bald young men. Nothing really changes, I thought to myself; another generation of recruits about to be whipped into line by their sergeant. I walked close enough to hear.

"I'm okay," yelled the sergeant.

"You're okay," yelled the recruits in unison.

"You're okay, WHAAAAT?" The sergeant was screaming, his peaked hat quivering in rage.

"You're okay, SIIIR," the bald men screamed back.

"Fifty push-ups for forgetting," said the sergeant.

I was getting confused, but a voice from behind interrupted my thoughts.

"A lot of the older noncommissioned officers are having trouble getting the hang of transactional close order drill. But we find that a lot of them are leaving and being replaced with younger blood." I turned to see Captain Calvin "Cal" Lude, Camp Lewin's information officer.

"Let's start with the rifle range, Capt. Lude," I said with some authority. "Nothing like seeing a squad practicing on the firing line."

The captain gave me a condescending smile. "Affinity groups, sir. We call them affinity groups

these days, not squads. More conducive to group-cohesive goal-oriented behaviors, you know."

"Group-cohesive whats?" I sputtered.

Capt. Lude ignored me and launched into his prepared spiel. "The old Army," he said, "used to put a premium on individual initiative, skills, and courage. The New Army understands that this does not allow the recruit to achieve his/her full human potential in a post-technetronic society. It gets in the way of maximizing the psi-forces necessary for modern combat. Do you realize that a full-strength brigade theoretically has enough karmic energy to stop a 105-millimeter shell in mid-flight?"

"What happens if the tests fail," I asked sarcastically.

"Our Kubler-Ross seminars take care of that. If a soldier is liberated from the material level, he/she is fully prepared to continue fighting on the ethereal level. As our Commanding Officer is fond of saying: 'The Army should take control of the Air Force again ... we're the only ones prepared to fight on a higher plane.' A great joker, the CO—a Sagittarius, you know."

"Captain," I said firmly, "this whole thing is insane. You're doing nothing here that will train these men how to defend their country in time of war!"

"I can see that you're on a heavy neo-imperialist trip," the officer replied, "But if that's your thing, I'll let you in on a secret. Using our techniques, the Joint Chiefs of Staff have developed the biggest breakthrough in infantry tactics since the human wave suicide assault. We've decided to turn the MX underground missile system strategy into standard operating procedure for the entire armed forces. We are setting up a system where, in the event of war, all infantrymen will board Randomly Scheduled Troop Transporters. Just like the MX missile system, these will be underground vehicles, and the enemy will know where the exits are, but they won't know when and where our troops will pop out."

The IMF meets to plan the dollar's demise

by Richard Freeman

A broad reorganization of the world's monetary system, including the International Monetary Fund's capture of the "big potato" (the \$120 billion OPEC oil surplus for this year) is on the agenda for this week's Interim Committee meeting of the IMF in Hamburg. According to the plan, the IMF's "Substitution Account" will take \$20 to \$50 billion of central bank holdings of dollars and substitute the IMF's funny money, the Special Drawing Rights (SDR), as a critical step toward removing the world from the dollar standard.

By forcing nations into dependency on the IMF's currency, the Fund vastly enlarges its powers. Ultimately, the IMF will be able to dictate financial reorganization and austerity "conditionalities" to every participating nation in the IMF—including all the members of the Western alliance—and subject the world economy to its zero growth vision.

The strategic vehicle for realizing the IMF Substitution Account is the manipulation of the prolonged Iran crisis, which not only threatens Western Europe with an oil cutoff, thus bringing the economies of France and West Germany to their knees, but is intended to occasion a general OPEC nation mistrust of the dollar. Two days before the opening session of the IMF Interim Committee, the April 23 *Financial Times*, which is run by the British oligarchical families that are pushing the IMF Substitution Account, published an article entitled, "Assets freeze 'may assist IMF Scheme'" as its front-page lead. The article proposes that "President Carter's deci-

sion last November to freeze Iranian assets in U.S. banks may have brought an unexpected boost to the scheme for a Substitution Account within the International Monetary Fund (IMF)." By the *Financial Times* line of reasoning, the OPEC nations will be so terrified by the U.S. seizure of Iran's assets that they will take their tens of billions of dollars out and search for alternative currencies to invest them in. "It is noted the OPEC states would be able to pay some of their huge dollar holdings into the account, receiving assets expressed in the IMF's Special Drawing Rights (SDR's) in return," states the *Times*. "These assets would not be susceptible to a freeze or similar unilateral action by a national government."

Were OPEC nations, led by Saudi Arabia, forced to take their holdings out of dollars and put them into the IMF, this source of funds will have been withdrawn from investment in West Germany and France, who hope to invest their surplus dollars in the global development projects of the European Monetary System (EMS). This would block all significant West European opposition to the IMF's policy of forced deindustrialization for the rest of the world, doom most of the Third World nations, and consign the advanced sector to worsening depression.

At a press conference April 23, West German Finance Minister Hans Matthöfer threw a chink into the Substitution Account's prospects, although he refused to attack it in principle. Matthöfer cited unresolved technical problems and economic uncertainties as barriers to implementing the plan, adding pointedly that West Ger-

many prefers a strong dollar in the 1.95-to-the-mark range.

Keynes' offspring

The Substitution Account has been an international football since first proposed in 1978. In fact, the plan goes much further back in time and policy orientation. The Special Drawing Right was created in 1969 by the Keynesian faction inside the IMF. It revived the proposal at the 1944 Bretton Woods conference advanced by Lord John Maynard Keynes to create an international reserve labeled the "bancor" as a front for the then-sagging pound sterling. Instead of expanding dollar credits for world trade and investment, the IMF would ration international liquidity while bailing out Britain.

The Special Drawing Right, created as an extension of Keynes's bancor, now comprises 7 percent of all world reserve assets (excluding gold), although it is strictly an accounting currency. The exception to this has been the few SDR denominated loans issued over the last couple of years.

In the Substitution Account's current form the \$800 billion Euromarket dollar overhang would be reduced through an installment phase of retiring dollars and replacing them with interest-bearing SDR's. The first phase, which would supposedly take two to five years to implement, would have the IMF exchange SDR's for \$20 to \$50 billion worth of dollars. The Carter administration has quietly but energetically backed the plan since former Treasury Secretary Blumenthal's 1977 call for the IMF to guide U.S. domestic policy.

Multiple objections have been raised to the SDR plan. Some of these objections are addressed by the April 19-25 issue of the London *Economist*. Concludes the *Economist*: "Many things could still go wrong. The world desperately needs them to go right. Sudden flights from the dollar during a world recession could be very dangerous, unless there is a sensible new reserve established at the dollar's side."

The technical issue that has created the most controversy is U.S. agreement to fund the IMF's dollar liabilities under the Substitution Account scheme. The New York managing director of Schröder's Bank, Geoffrey Bell, who is also a member of the Group of 30 Rockefeller Foundation advisory body on monetary reform, thinks this is a serious problem. "What happens," Bell commented to *EIR* April 23, "if in five years several nations decide they want to redeem their SDR's for dollars, but the dollar has depreciated by 20 percent? There won't be enough dollars around to redeem the SDR's. The IMF shouldn't have to cover the shortfall. The U.S. should."

Bell said that the U.S. delegation from Treasury and the Federal Reserve, such as the Treasury Department's C. Fred Bergsten, while all supporters of the IMF Sub-

stitution Account, have hardened their opposition to U.S. funding of dollar liabilities held at the IMF and have instead seized on the idea of using the IMF's gold reserve to back the Substitution Account's liabilities. "West Germany and France are not too keen on using the IMF gold reserve to fund the liabilities of the SDR. Neither are the Third World countries, which see the SDR as an advanced-sector issue." It is mooted that if the gold-backing of SDR liabilities went into effect, the IMF's monthly gold auction program would be suspended. The program, which provides money to the least developed countries, is up for renewal in May.

A further obstacle to the IMF Substitution Account's realization at Hamburg is the position of West Germany. The Federal Republic's Bundesbank has drawn down \$10 billion worth of dollar holdings and is also running a large current account deficit. Germany wants other nations to spend their dollars by buying—and therefore strengthening—the mark, and an SDR facility, according to Schröder's Bell, would be "a competing facility for where dollars could be placed, which the Germans won't be too keen on."

Fall-back option

However, if the SDR Substitution Account is not adopted this weekend, there is a City of London fallback option: to accelerate diversification out of the dollar until the dollar comprises only 50 percent of world reserves—down from its current 80 percent level—which would open the way to the SDR. "This is a likely second path," stated Schröder's Bell. "It would occur over two or three years and would result in yen, dollar, DM blocs and so forth. This is already happening."

In either case, the world would be opened to an SDR-based world monetary system. The companion measure is slated to be expansion alongside a "liberalization" of the IMF-World Bank Third World operations and perhaps their merger into one giant fund with \$100 to \$200 billion capitalization. Indeed, this is the perspective of the Brandt Commission, the "independent" wing of the World Bank under Second International leader Willy Brandt which this winter released a 250-page "small is beautiful" handbook for turning the globe into a labor-intensive workcamp. Brandt's proposal will also be discussed at Hamburg.

The City of London's preference is for immediate activation of the SDR Substitution Account, as that would clear the way for a specific initiative against the U.S. Upon receiving dollar deposits in exchange for SDR's, the IMF Substitution Account will invest these newly deposited dollars into U.S. Treasury bills. At the point the IMF accumulates \$200 to \$300 worth of U.S. Treasuries, it will call the shots on the U.S. Treasury policy and the U.S. government itself.

A few concessions

The Fed decision to let some farm banks have more funds is a sop little better than Carter's plan to save politically friendly homebuilders.

The threat of impending bankruptcies among farmers and small businessmen in rural areas of the country has forced a concession out of the Federal Reserve—albeit a tiny one. On April 17 the Fed announced that it was expanding its temporary, seasonal loan program to enable small banks to continue to make loans to credit-dependent farmers and businessmen in their communities.

Under the expanded program, the Fed will make available six to nine month loans via the discount window to both member and non-member banks with less than \$100 million in deposits. Most of these banks are already heavily loaned up—with loan-to-deposit ratios in excess of the 68 percent “danger point”—and have been recently cut loose by their money center correspondent banks. In the absence of the program, they would have to cease all new lending activity.

The Fed will lend the banks 70 percent of new loan commitments at the 13 percent discount rate, on the first 5 percent of the increase in the banks' loans outstanding. Spokesmen for the Federal Reserve have estimated that the program could involve between \$1 and \$3 billion in new lending by the central bank to as many as 6,500 qualifying small banks.

Most of the small rural banks

have been loaned up for around three years, but until recently they could at least count on being able to borrow funds from their correspondents in the Federal funds (interbank) market. However, the Fed's decree of March 14 limiting loan expansion at the nation's banks to six to nine percent for the year changed all that. To stay within those limits, the large commercial banks, who had no intention of renegeing on loan commitments to their good corporate customers, put the screws on loans to consumers and small banks—their fairweather banking correspondents.

“The situation among small banks is utterly desperate at the same time that the requirements of the spring planting can't be postponed,” one well-placed bank analyst commented in an interview. “The Fed would look pretty bad if it allowed these guys to be the first victims of the credit restraint program.”

The scope of the program “seems very small indeed,” he added. “It won't do much good, but it is the first of a number of gestures that the Fed and the administration are going to be forced to make.”

Another such ‘gesture’ has materialized in the form of a promised revision of the “Section 235” housing program of the Department of

Housing and Urban Development (HUD), ostensibly to give a shot in the arm to the sagging homebuilding industry. The new program announced by President Carter on April 21 has not yet come out in final form, however Carter indicated it would involve increasing the limit on the size of mortgages that can be subsidized by HUD in the S 235 program to \$60,000 from the current maximum of \$38,000; raising the interest rate that home buyers would pay for subsidized mortgages to at least 11 percent from the current 4 percent maximum; and lifting the lid on income eligibility for the program. Carter predicted that the plan could stimulate the construction of up to 100,000 new single-family housing units.

Merril Butler, president of the National Association of Home Builders, responded to the President's announcement by saying that the plan would assist some builders, but that it certainly was not the answer to the problems that have been brought on by record-breaking interest rates. The NAHB recently revised its forecast of housing starts for 1980 from 1 million units down to 900,000 units. In the current scheme of things, 100,000 units would hardly be a drop in the bucket.

Worse, the S 235 program of HUD has notoriously been used to funnel federal subsidies into mortgage bankers and builders who are “friends of the administration.” A number of small home builders have confided to the *Executive Intelligence Review* that Carter's new program is intended to keep a select group of builders alive, while the bulk of the nation's small home builders are driven under.

The iron law of money?

A reply to Count von Plettenberg points out that some "low daily living requirements" cost more than some "high daily living requirements."

In a letter to *EIR* Contributing Editor Lyndon H. LaRouche, Count Sixtus von Plettenberg of Madrid writes, "I am—like you—against gold as an iron fetter, but for a *National Monetary Authority tied down to a definition of money*. Unless and until *EIR* tackles this basic issue of human relations, I am afraid you unwittingly or purposely shirk the real issue." Count von Plettenberg encloses with his letter a copy of an article which he wrote for the Liberty Lobby newspaper *Spotlight*.

Since many readers of this column also subscribe to *Spotlight* and have raised similar questions, I thought it would be appropriate to answer von Plettenberg's criticism in this space. In his article ("Money is More than a Regulator of Economic Life," Jan. 21 1980), von Plettenberg states that "a government by law—and this is ... defined ... by the principles that are derived from the observation of organic order, the iron law of cause and effect—as the guarantor of law and order must guarantee money as a valid currency, like it does with meter, gram, watt, etc. and regulate it in its correct quantity, just like a healthy body does with its blood by not changing it arbitrarily." Accordingly, von Plettenberg proposes that governments everywhere regulate the money supply in such a way that the basic national monetary unit is always in accordance with a given parity. That parity he defines as "equivalent to one person's daily living requirement as determined

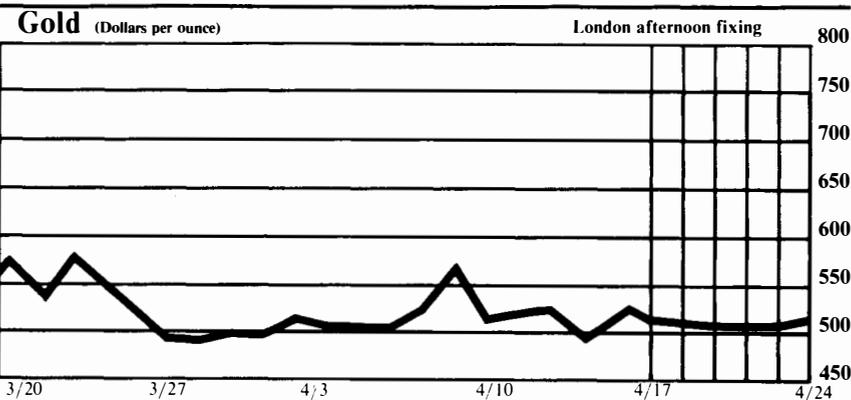
by the cost of living index."

Ironically, von Plettenberg, in defining his monetary standard, has adopted the very same assumptions underlying the economic theory of the Trilateral Commission "one worlders" who he attacks further on in his article, namely the existence of a no-growth, "equilibrium-state" economy.

What is, after all, "one person's daily living requirement"? The living standard of a peasant or a factory worker in a Third World country is obviously quite a bit lower than that of the average American farmer or blue collar worker, but the productivity of the latter is likely to be several times that of the former. Or to state the same point from a slightly different angle, the relative social cost of producing the American worker's "daily living requirement" is actually *lower* than the relative social cost of the Third World workers' substantially *lower* living standard. In the Peoples' Republic of China and the more backward Third World economies, as much as 75

percent of the population must be employed in agriculture simply to supply domestic food requirements. In the U.S., less than 4 percent of the population is able to feed the entire nation as well as to export huge surpluses each year. One cannot use the same metric in determining the "daily living requirement" of an agriculture-based Third World economy as used in measuring an advanced industrial economy; they do not exist in the same universe.

Therefore, it is sheer lunacy to propose, as von Plettenberg does, that there exists some fixed "natural" rate of money supply growth which governments must adhere to for all eternity. The only valid measure of a healthy economy is, as LaRouche has defined it, an increase in the society's reducing power, its ability to produce higher rates of surplus at relatively lower cost. The purpose of money is to facilitate the circulation and reinvestment of that surplus output. The amount of credit extended will not be excessive as long as it results in the generation of additional tangible output equal to or greater than the debt incurred. The real issue is not: "How much credit is too much?" but "how is credit being used?"



The Jesuits' export drive

The Center for Strategic and International Studies at Georgetown wants to make America's exports more "competitive." If they succeed, American industry is in trouble.

“A major obstacle to export expansion [in the U.S.] has been the lack of understanding about the roots of the problem. Consequently, CSIS has begun a major study of U.S. Export Competitiveness under our direction.” So wrote Michael Samuels and Robert A. Kilmarx some two months ago, by way of introduction to the “U.S. Export Competitiveness Project” of Georgetown’s Center for Strategic and International Studies (CSIS). Samuels is CSIS’s Executive Director of Third World Studies and Kilmarx is its Director of Business and Defense Studies.

Foreign policy insiders will appreciate the irony of Georgetown attempting to lead a fight to expand U.S. exports. It was Georgetown’s dean of geopolitics Father Walsh, S.J. and Georgetown professor Carroll Quigley who, respectively, launched the Cold War and then the Joe McCarthy movement. In the process, the 1944 Roosevelt-Stalin project for decolonizing the postwar world and industrializing it was dropped. That project would have created the greatest export boom in U.S. history.

So what is it that Georgetown and the academics of the “U.S. Export Competitiveness Project” are now up to? For one thing, *austerity*. Penelope Hartland-Thunberg writes in *The political and strategic importance of exports*: “Because U.S. export performance has deteriorated to such a degree relative to U.S. imports and world exports, recovery will require sacrifices for this country. Recovery could be achieved by balancing downward, by a reduction of U.S. imports to the level of exports.” True, “balancing upward ... is vastly to be preferred.” But even this “will require draconian measures.”

Robert A. Flamming corroborates this outlook in his *U.S. programs that impede U.S. export competitiveness: the regulatory environment*. In the section “Efficiency vs. Stability,” “Efficiency” is identified with an allegedly outmoded growth process of earlier decades and “stability” becomes a euphemism for zero-growth stagnation. Flamming writes: “Until the last decade or so, America’s chief economic goals were reasonably apparent to most observers: greater

efficiency, greater productivity per man-hour, a higher standard of living for all.” But now “Growing interdependence has changed the way we behave. American vulnerability to all sorts of shocks was laid bare with the oil embargo of 1973-1974 ... ‘Project Independence’ was one piece of evidence.” Flamming then follows with a catalogue of reforms—including a call for a U.S. value-added tax and for a Department of International Trade. Value-added taxes favor speculation and services at the expense of commodity production. The Department of International Trade would be another super-agency strangling exports.

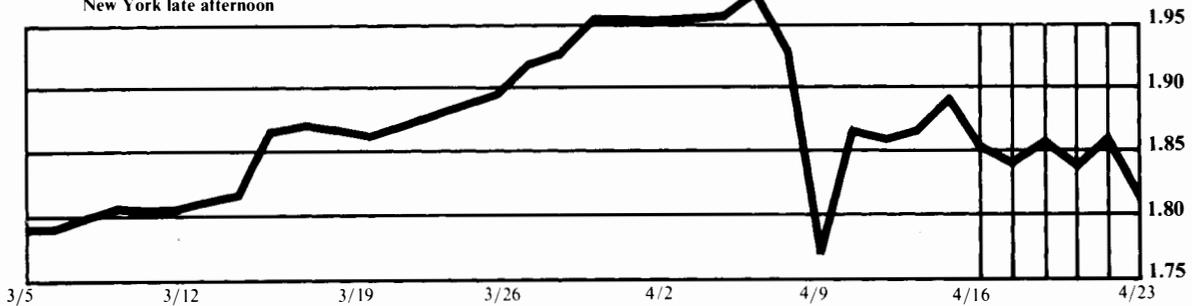
The trade war aspects of CSIS’s activities are manifest in two other CSIS Export Project publications. Jack Behrman and Raymond Mikesell’s *The impact of U.S. foreign direct investment on U.S. export competitiveness in Third World markets* stresses that U.S. direct investments abroad usually enhance U.S. exports and certainly harm the exports of other countries—and hence are to be recommended. Leonard Weiss’s *Trade liberalization and the national interest* is euphoric over the “Tokyo Round” as representing “a significant net benefit for the United States” through limitations of dirigist industrial measures by foreign countries.

Nowhere in any of the cited pamphlets does the notion enter in of global economic development or that a U.S. export drive could be a positive development, rather than a prelude to trade war, austerity, and autarchy—the guaranteed outcome of the Georgetown CSIS approach.

Foreign Exchange

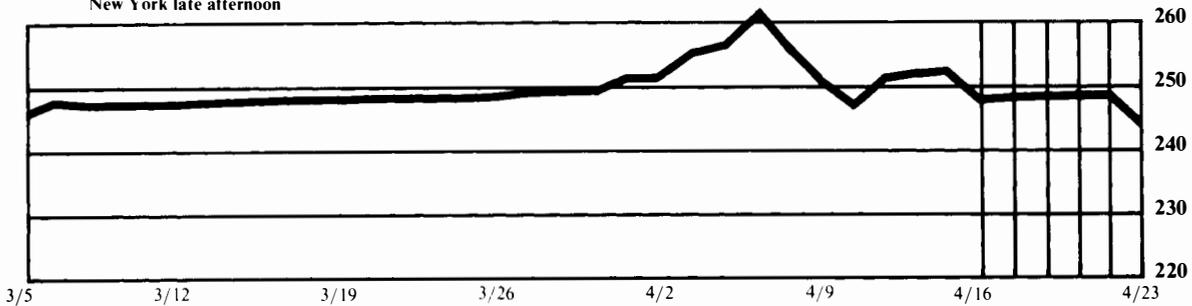
The dollar in deutschmarks

New York late afternoon



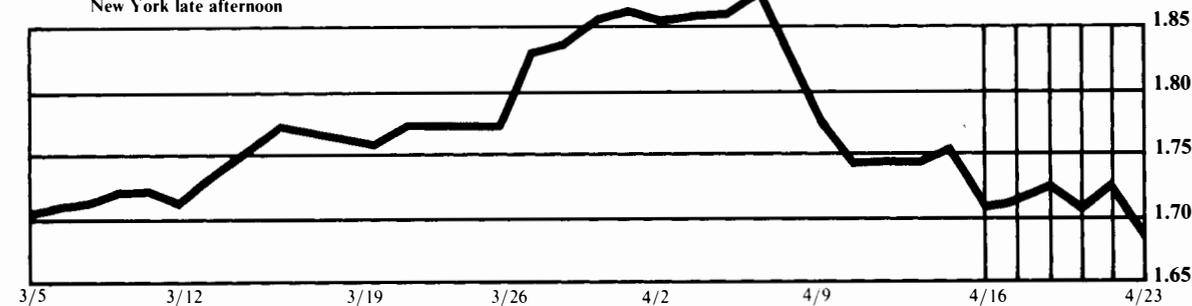
The dollar in yen

New York late afternoon



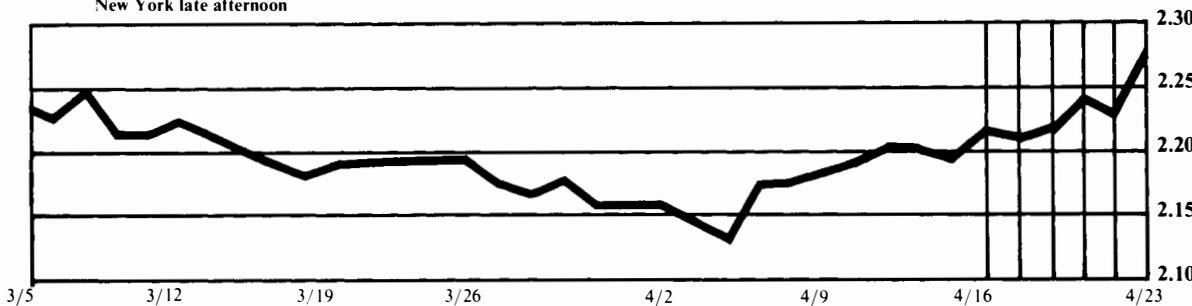
The dollar in Swiss francs

New York late afternoon



The British pound in dollars

New York late afternoon



Trade Review

NEW DEALS

Cost	Principals	Project/Nature of Deal	Financing	Comment
300 mn	U.S. from Japan	Nissan Motor Co. will build a pick-up truck plant in U.S. at a yet-to-be finalized site		
	India from France	Alumina-Pechiney will build an aluminum plant	Payment for the plant in surplus aluminum output	Agreement reached
	France/Venezuela	(1) A Renault car assembly plant will be built near Caracas; (2) France will participate in Venezuelan R&D project to exploit the heavy oils of the Orinoco belt		Trade agreement reached during visit of Venezuelan President Luis Herrera Campins to Giscard d'Estaing in Paris
	EEC/Brazil	Economic cooperation agreement		Specifics not available at press time

CANCELLED DEALS

	U.S. from Iran	President Carter has banned U.S. trade with Iran except for essential food and medical supplies		
	Portugal/Iran	(1) Portugal cancelled all trade with Iran in support of President Carter's call for sanctions; (2) Iran has retaliated by halting all oil exports to Portugal and promising a blacklisting of third parties who ship oil to Portugal.		In 1979 Portugal obtained 21 percent of its oil from Iran

Coal conversion: a disaster

In his July 1979 energy message to the nation, President Carter proposed a program to reduce electric utility consumption of oil by half by 1990. The nation's utilities currently burn about 3 million barrels of oil per day out of a total national consumption of 17 million per day.

Then on March 6, 1980, the President added another sweetener in his three-year crusade to cajole and threaten the utilities to convert to coal. He proposed that the federal government kick in \$10 billion over this decade to meet a reduced goal of cutting 1 million barrels of oil consumption per day by 1990.

Talk of utility conversion to coal began after the 1973 oil embargo when the Federal Energy Administration issued voluntary conversion orders to mainly the Northeast utilities. When *not one* utility had voluntarily converted to coal, these orders became mandatory. Since then they have been tied up in court.

In 1979, the utility industry, the National Coal Association and the boiler equipment manufacturers who would have to supply the conversion equipment, stated clearly that oil-to-coal conversion would not only waste billions of dollars that the utilities need to supply cheap, reliable power, but adversely affect the reliability of the electric grid system, actually *waste energy* in terms of BTUs of input for kilowatt hours produced, and would put an unreasonable strain on the transport system and the electric equipment manufacturers.

In any case, the utilities had their own, well-thought-out plan for phasing out oil-burning capacity—to build nuclear power plants.

The program would require approximately 72 million tons of coal to be transported in primarily the New England region. The Department of Energy itself has admitted this would strain railroad capacity and increase freight rates. Reportedly, the Environmental Protection Agency fought with the DOE for eight months on the environmental effects of burning the coal, particularly in the New York-New Jersey region. As a matter of record, it is *illegal* to burn coal in New York City.

The EPA has estimated that sulfur emissions in New



Coal miners in the deep-mine fields at Marissa, Illinois.

England could increase by as much as 25 percent with the enactment of this conversion program and that the phenomenon of acid rain would increase. The combination of sulfides in the air (from burning coal) and water in the atmosphere effects the acid balance of bodies of water when it rains leaving lakes and rivers in New York and Canada sterile.

Much more immediately disastrous for the utility industry and the population of New England will be the financial effect of such a program. A recent study, titled "Regional Conversion to Coal" by the Engineering Societies Commission on Energy, states simply that "because of its physical characteristics, simple conversion to coal of a utility steam boiler unit designed for oil or gas is not feasible. Boiler replacement or pre-boiler coal liquefaction or gasification would be required..."

In 1977, the American Boiler Manufacturers Association stated that "if the unit was not initially designed for future coal-firing...conversion of an industrial or utility boiler is virtually impossible and totally impracticable, both as relates to economic feasibility and boiler capacity, which can be reduced as much as 60 percent...This situation really means boiler replacement."

In 1977, the Edison Electric Institute estimated that the coal conversion plan would cost the electric utilities and their customers over \$50 billion. For the past decade, the Long Island Lighting Company in New York has planned to phase out their oil-burning power plants and replace them with nuclear capacity.

Now LILCO is under orders to convert 10 power plants to coal in the first phase of the DOE program. The utility estimates this will cost them \$3.2 billion—one third of all the money being offered in federal grants.

Though the cost of conversion can vary significantly depending upon whether the plant burned coal in the past, it is clear that over \$30 billion will be needed for phase one, alone.

That figure of \$30 billion is more than the entire utility industry will spend this year in capital expansion.

Business Briefs

Capital goods

Durable goods orders slump 3.2 percent

Factory orders for durable goods fell 3.2 percent in March, the largest monthly drop since last July, the Commerce Department reported. The decline was largely due to a 9.9 percent plunge in orders received by the primary metals sector, which includes steel and nonferrous metals. By contrast, orders for non-defense capital goods rose by 5.7 percent for the month.

These latest figures provide further evidence that the Federal Reserve is presiding over a major structural shift in the U.S. economy. While housing construction, automobiles, and other consumer durables are already sinking into a depression, capital investment has been artificially buoyed by a flood of new orders for such items as oil drilling equipment, commercial aircraft, and machine tools needed to convert Detroit's plants to the production of smaller, "fuel-efficient" cars.

The buoyancy in capital goods, however, has not been enough to prop up the steel industry, which has been hit hard by the slippage in orders from the auto companies and from steel warehouses which are having difficulty financing their inventories at the present high interest rates. U.S. Steel senior vice president Dale Armstrong revealed that his company's order rate dropped 40 percent in the last five weeks. Steel analysts are predicting that domestic steel shipments will decline to about 90 million tons this year, down from 100 million in 1979. Meanwhile, domestic auto sales plummeted 33.5 percent in mid-April, compared to the same period a year ago. This was the worst sales performance by the industry in any ten-day period so far this year and will further

depress steel orders.

The Fed's policy has failed to put a dent in inflation; the Labor Department reported that the consumer price index rose another 1.4 percent during March, a 16.8 percent annual rate.

Agriculture

Carter bows to farm pressure

On Friday, April 18, the Federal Reserve Board announced that it would be making \$1 to \$3 billion in new loan funds available to rural banks serving agriculture and small business.

The move, together with an administration announcement that it would take action to help the home mortgage market, was a direct response to an increasingly organized opposition to Carter-Volcker economics centered in the Midwest. In recent weeks protest activity has been coordinated among farm producers, home builders, construction trades, Teamsters and small businessmen. On April 11 representatives of the five major farm organizations confronted Paul Volcker in his office with the fact that high interest and tight credit was strangling the farm sector.

The Fed will now offer temporary seasonal loans to nonmember as well as member small banks. The Fed will charge 13 percent for the six-month loans, which can be extended to nine months.

While Carter's moves were aimed principally at defusing the situation politically, it remains to be seen whether this will occur. The Farm Bureau, with a fiscal austerity-advocating profile, applauded the Fed move. By contrast, the National Farmers Union acknowledged

that the move would grant some slight relief on "the supply side," but strongly emphasized that it left the impossibly high rate regime intact. NFU National Secretary John Stencil had earlier called for a congressional investigation of the Fed.

The House Agriculture Committee announced this week that it will hold hearings on the economic emergency in the farm sector starting April 29, an event which will serve to keep a national spotlight on a full discussion of the agricultural crisis.

Trade

French to build aluminum complex in India

An agreement in principle has been reached between France and India for the construction of an "integrated" aluminum plant in Orissa, India, it was announced April 16 by Foreign Trade Minister Pranab Kumar Mukherjee. Cost is estimated at \$2 billion.

The deal would involve mining of bauxite, production of alumina (800,000 tons per year capacity), production of aluminum (220,000 tons) and infrastructure. Credit for the project would be provided by French banks and public institutions, probably at 5 percent interest, according to *Le Monde* April 18.

The French firm Pechiney Ugine Kuhlmann has already carried out preliminary studies and will provide the technology.

The deal's details were worked out by an Indian delegation that visited Paris recently. In principle, however, the aluminum production program is one of many projects agreed upon by French President Valery Giscard d'Estaing and

Briefly

Indian premier Indira Gandhi during the former's historic visit to New Delhi at the end of January.

Energy

London oil futures market in the works

By January 1981, an international oil futures market will be operating in London, if the plan to be officially announced April 24 goes into effect. The Sunday *Times* of London reported April 20 that until a standard measure of crude oil is established, the International Petroleum Exchange, as it is dubbed, would probably confine its trading to gas, oil and naphthalene. Also, to make the market "large and liquid" enough, comments the *Times*, "substantial capital commitments by market makers and the clearing system" would be required, along with "sufficient interest from the speculators who are the normal counter parties to many deals by the industrial users of futures markets."

The plan was developed over the past year by the Bank of England and the international oil majors in conjunction with London commodity market representatives. The IPE, confirms the *Times*, "is seen as complementary to the Rotterdam spot market where vast quantities of crude oil and refined products are traded." A futures market would enable buyers and sellers of oil products to hedge against the frequently violent price fluctuations in the underlying commodities.

European and Japanese leaders have recently begun to voice the need for averting acceleration of the spot-price increases that began with the 1979 Iranian oil cutoff. The spot market since then has served to put upward pressure on official OPEC prices, along with the

"price hawk" initiatives of the British government on North Sea oil. The oil majors' interest in the IPE plan presumably reflects their interest in gaining a twofold instrument of stiffening prices.

Industry

Skinning Chrysler

In a session last Friday night with the federal government's Chrysler Loan Guarantee Board, Chrysler agreed to give up its full line of auto production by discontinuing its production of full-sized cars. Guarantee Board directors, Treasury Secretary William Miller, Federal Reserve chairman Paul A. Volcker and Comptroller-General and former National Security Agency director Elmer Staats also forced Chrysler to cut \$2 billion from its \$13.5 billion budget through 1985.

Chrysler's chairman, Lee Iacocca had forcefully argued before Congress last year that without full-sized car production, the company would never be viable as an auto company. Following last Friday's capitulation, however, Chrysler immediately made plans to make cuts. On Wednesday Chrysler announced plans to permanently dismiss 6,900, or 19 percent of its white collar work force, claiming this would save \$200 million and reduce the company's 1980 deficit to \$750 million or less. Chrysler presently has 42,800 hourly workers on indefinite layoffs and reported Thursday that its mid-April sales were down 42 percent from a year ago.

Reflecting the fact that the Volcker policies—both at the Fed and the Loan Guarantee Board—will put the auto industry into a permanent slump, United Auto Workers president Douglas Fraser claimed that Chrysler would emerge from a years-long reorganization as "a much smaller company."

● **DONALD S. RUBIN**, director of corporate affairs for McGraw-Hill, Inc. last Thursday "regretted" that he had to refuse to rent *Executive Intelligence Review* a room for its May 28 seminar on the Riemannian Economic Model. Rubin explained that although McGraw-Hill regularly rents its meeting rooms to corporations and non-profit organizations, the *EIR*'s seminar might be competitively harmful to McGraw-Hill, which also holds economic seminars. Rubin admitted that it was entirely possible, however, that McGraw-Hill people would attend the *EIR* seminar.

● **J. CHARLES PARTEE** of the Federal Reserve Board told the American Statistical Association in an April 17 speech that Americans must accept a decline in living standards. "When we say we will reduce inflation, it is the equivalent of saying that we must reduce incomes. This is not broadly understood and it is likely to cause difficulties as the recession deepens."

● **THE PRESIDENT** of one of New York's largest savings banks phoned *EIR* this week to protest our recent publication of an interview with an aide to House Banking Committee chairman Henry Reuss in which the aide had mentioned his bank as one of those slated "to go down the tubes." Said the officer, "Why, we haven't hypothecated any mortgages, and we're selling Fed funds every day. And, furthermore, I know Reuss myself!" He added "Things are going on in Washington that will straighten out the situation."

LaRouche-Riemann model forecast:

Can the U.S. economy survive the depression?

by David Goldman

Whether the United States economy is physically capable of recovering from the depression now in its first stages, and, if so, under what conditions, is the question underlying all current debate over economic policy. That the economy's survival itself is a matter of open question is established beyond doubt in this three-part survey.

The survey includes the first publication of new indices for depreciation of the capital stock and related measures of productive potential; a set of computer simulations of possible economic scenarios on the LaRouche-Riemann model; an authoritative analysis of the economy as a physical system; and a report on the



extraordinary economic results of the past seven months.

What makes the present situation altogether sobering is not only the live danger that we may not, after all, pull through this one, but the fact that the administration (and the leading Republican policymakers) are entirely blind to this danger. *Executive Intelligence Review* has repeatedly emphasized that econometric models of the Wharton variety cannot distinguish between productive and counterproductive spending within a given blob of Gross National Product, and can reinforce the worst suicidal delusions among economic leaders.

By the time these delusions are upset by the harsh turn of economic events, in this case, it will be too late. Our Swiftian economists will have fallen off the Island of Laputa.

Therefore, the editors of *Executive Intelligence Review* consider the publication of these results a matter of profound national importance. We have, as the La-Rouche-Riemann model results tell us, little time left.

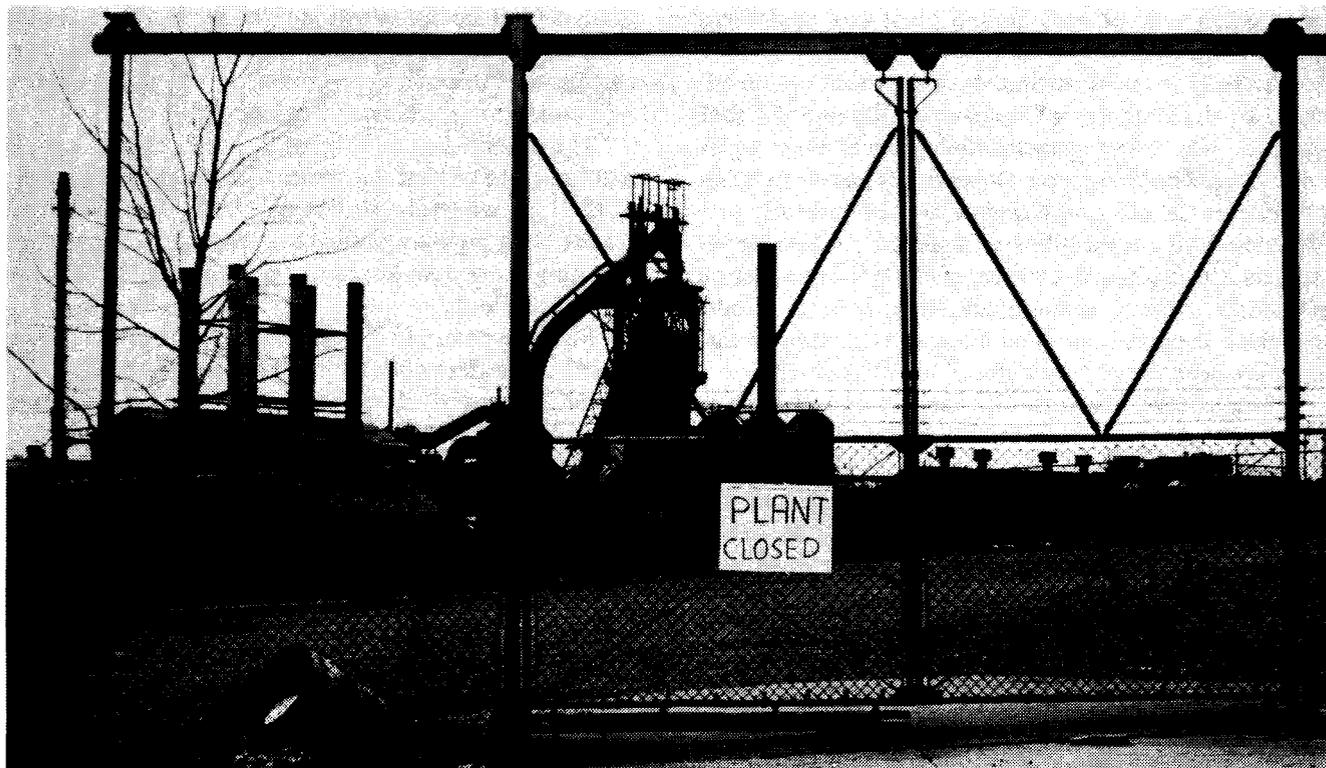
Thermodynamic death occurs in an industrial economy under the condition that society is *physically unable* to replace the capital goods and labor power it "consumes" in production. Below we present estimates for the real depreciation of the nation's capital stock (via deterioration, obsolescence, and reductions in scale). *EIR* will publish shortly a similar analysis of the productive labor force.

For the moment, it is important to note that only one

In this section

Our Special Report this week was prepared under the direction of Contributing Editor Uwe Parpart. Economics Editor David Goldman presents three scenarios of future economic performance to pose the question: "Can the U.S. economy survive?" Leif Johnson of *EIR* compares the recession of 1974-1975 and today, the industrial sectors most affected, and concludes that the much-touted 1980 recession will be unlike any other. Dr. Steven Bardwell, plasma physics research director of the Fusion Energy Foundation, and Dr. Uwe Parpart, discuss "the thermodynamics of the U.S. economy" and the fundamental refinements of the La-Rouche-Riemann econometric model that have led to our conclusion that by 1981 the U.S. economy may very well have reached a point of no return. *EIR* researcher Alice Roth and FEF researcher Dr. John Schoonover provided critical inputs of data and analysis.

Photos: at left, David Goldman with Dr. Uwe Parpart at the computer. The industrial capacities needed for economic recovery will be lost if current administration policies continue for even six more months.



skilled machinist is now graduating from apprenticeship programs for every four positions opening for machinists annually. The same shortages are the norm among other categories of skilled operatives. Demographic "depreciation" is probably a cause of economic decline as bad or worse than capital stock depreciation. By proving the case for the latter, however, we prove our case for the economy as a whole.

Continuing in its current trajectory, the American economy will die thermodynamically late in 1981. Presently, failure to replenish our productive capital is not yet a question of absolute physical constraint, but still susceptible to policy changes to increase productivity and reduce unproductive overhead costs—just barely. The minimum survival conditions to prevent this, according to computer analysis, are

1) a minimum 3 percent annual growth in labor productivity (under a global, not an output-per-manhour definition)

and 2) a restriction of federally sponsored energy investments to only the most efficient forms of energy production, to nuclear fission, coal magnetohydrodynamics, thermonuclear fusion, and not to synthetic fuels, solar power, and so-called conservation programs.

Investment versus depreciation

Before proceeding to the computer analysis itself, we establish the following important fact: the rate of real depreciation now exceeds annual plant and equipment investment.

Currently available estimates of depreciation are admitted by the Commerce Department, Bureau of Labor Statistics, and other agencies that prepare them to be inadequate. The Commerce Department merely publishes whatever the Internal Revenue Service currently permits industrial corporations to deduct from taxable income as a depreciation expense. The only organization to conduct surveys of manufacturers and other goods-producing corporations (including construction, transportation, utilities and agriculture) is McGraw-Hill.

However, the McGraw-Hill data is flawed both in sampling technique (their sampling base has changed erratically over the past five years) and methodology. For example, the McGraw-Hill survey asserts that the amount of plant and equipment considered obsolete in 1978 by companies sampled was \$80 billion, a sharp drop from over \$100 billion in 1976. Apart from deficiencies admitted by McGraw-Hill in the sample, this also reflects, especially in heavy-industry categories, scrapping of obsolete equipment that has not been replaced, resulting in either shortages or greater import dependency.

Figure 1 shows the Commerce Department's estimate

of net capital stocks (adjusted for replacement cost at existing scale and in 1972 dollars). It is visually clear that the trend-line changes sharply upward between 1964 and 1969, and then breaks after 1970. The earlier period reflects the best years of the postwar economy, coinciding with the height of NASA spending and the most rapid rate of realization of new technologies in the aggregate economy. In "absolute" terms, i.e., comparing industry to the state of the art on a world scale, this high rate of investment was not adequate. McGraw-Hill found \$69 billion of investment requirements to replace obsolete technologies in its 1969 sample.

However, the difference between the growth rate earlier established, projected in Figure 1 through the 1970s, tells us what existing economic potentials the United States failed to realize. Within the geometry of the 1970s American economy, it quantifies unmet investment needs. (For 1974 and 1976, the index constructed this way coincides with the McGraw-Hill obsolescence estimates, but is much larger for 1978, when the McGraw-Hill approach failed in the way noted earlier.)

Figure 2 provides additional justification for this depreciation index. The graph line showing output per unit of capital stock, constructed by the Bureau of Labor Statistics shows — astonishingly — that the productivity of capital stock has never recovered its 1965 high point.

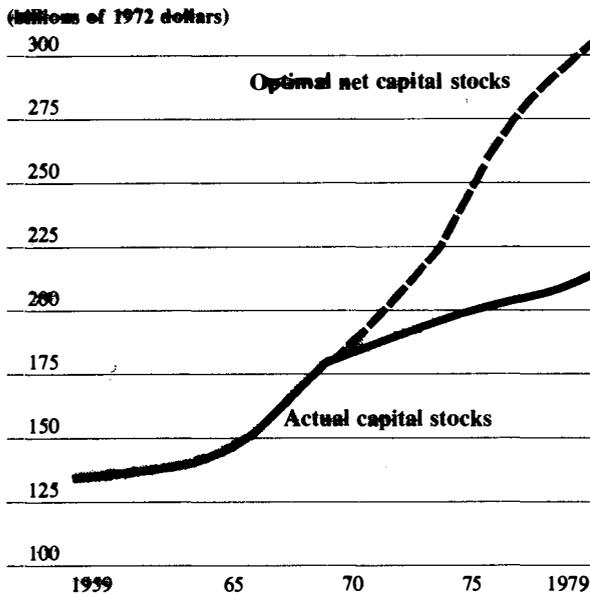
The post-1965 fluctuations in the curve are entirely cyclical. They show improvement in capital productivity as capital is scrapped during recession years, and declines when capital stock utilization rises. Since we are dealing with capital stock of unchanged overall *quality*, we are correct to calculate the volume of unmet investment *requirements* in the fashion described.

The second line of Figure 2, net capital stock per manhour, shows that the formerly rising capital intensity of the U.S. economy peaked in 1975 and has not since recovered, a highly significant corollary: the economy is churning more man-hours through the same deteriorating capital stock.

Figure 3 compares the Commerce Department's depreciation index with the *EIR* index and the rate of capital formation, showing that the real rate has been negative.

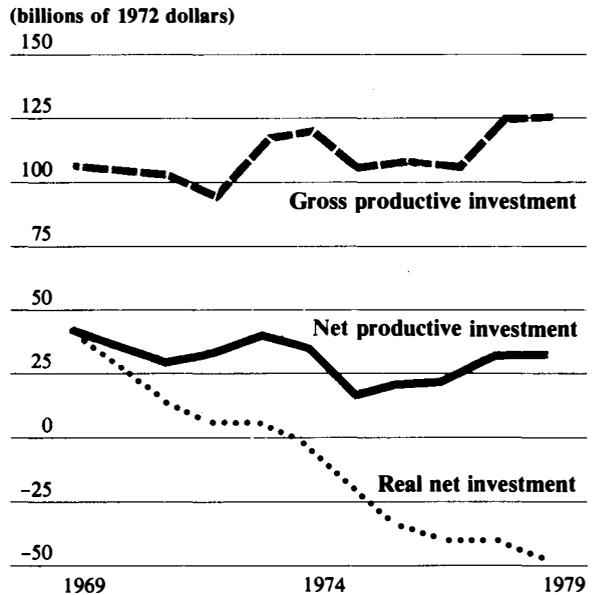
Figure 4 is a three-dimensional phase diagram showing, on three axes, output per manhour, energy consumption in BTU's per manhour, and investible surplus (see below) net of depreciation. A two-dimensional version of the same phase-diagram, showing only the first two variables, was published last month in *EIR*'s Special Report, "Energy conservation: building inflation into the economy." Dr. Steven Bardwell, in his accompanying discussion of the economy as a physical system, treats this issue in greater detail.

FIGURE 1
Manufacturers' net stock of
plant and equipment



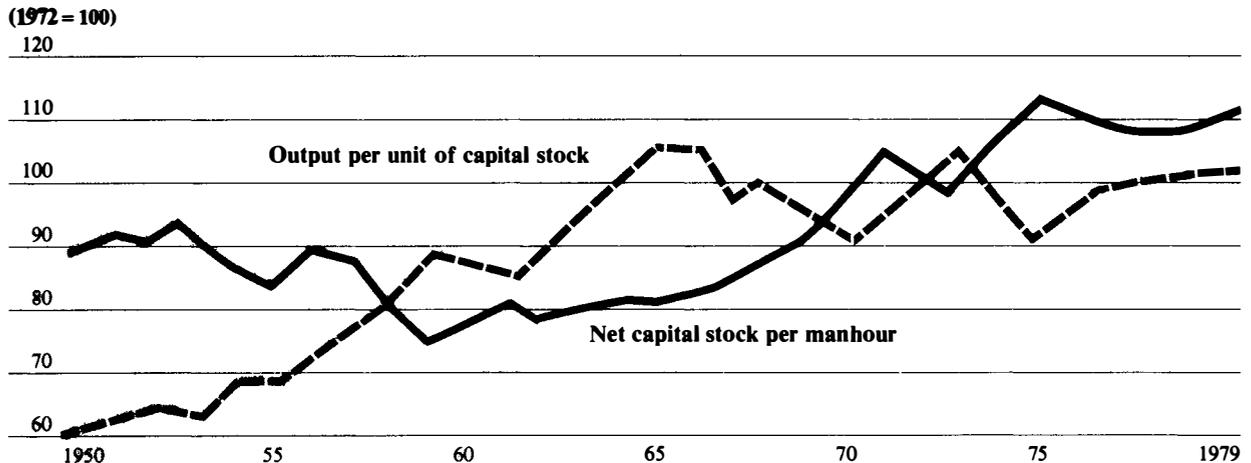
Actual stocks are derived from Bureau of Economic Analysis estimates. Optimal net stocks are based on projecting the rate of growth from 1964-1969.

FIGURE 3
Productive fixed investment



The trend of gross investment is taken from the Bureau of Economic Analysis estimates adjusted for unproductive investment (like office buildings). Net investment is derived by adjusting for BEA capital consumption allowance. Real net investment is the gross adjusted by the *EIR's* capital consumption allowance.

FIGURE 2
Capital intensity vs. productivity of capital



The point, briefly, is that the energy and “productivity” parameters show after 1971 a decline in energy intensity combined with a modest rise in productivity. However, the addition of the third dimension—the vital index of reinvestible surplus (S')—shows that the “productivity” improvement occurs in a region of negative performance for the economy as a whole. This invalidates the argument that productivity growth is feasible on the basis of past performance in a regime of reduced energy intensity.

Projecting current trends

The first set of computer-generated graphs adjoining (see pages 22 and 23) shows a simple projection of past trends in the real economy through 1985. The data employed were complete through 1979 and estimated for 1980, by extension of the first-quarter figures. We simulated the effects of continued secular decline in our global productivity ratio (surplus produced in tangible terms per increment of labor input (S/V), rather than “output per manhour”) between 1975 and 1979. The results are entirely sobering.

The vital index of reinvestible surplus (S') (the amount of tangible goods available for capital formation and increase in the labor force after deducting overhead costs and depreciation costs) falls sharply into the negative during 1980, continuing a trajectory already empirically established in the 1979 data, and bottoming out at \$139 billion (in 1972 dollars)—a staggering loss.

Only then does the level begin to recover, too late (in 1984) and from too low a level to sustain recovery. If that happens, the economy will never recover: it will never (short of foreign assistance) catch up with accumulating replacement costs. As Dr. Steven Bardwell shows in this report, the quotient of reinvestible goods has been in the region of zero since 1975. The LaRouche-Riemann computer simulation shows that the unpaid costs of economic deterioration will catch up with us by 1981.

The trend of total surplus (the equivalent of value added in tangible-goods terms, net of services) indicates that the absolute level of economic output will lag behind the earlier-mentioned index only by a year. The economy will go over a cliff during 1981.

Leif Johnson's accompanying discussion of the economy's current behavior is vital to understand in this context. Johnson reports that the stability of the industrial production index (despite the incredible decline of consumer-durables production) is entirely due to increased “overhead” spending for energy “conservation,” pollution abatement devices, and similar counterproductive investments. Such investment at the expense of global economic productivity obviously cannot continue for long; the LaRouche-Riemann model concludes that it will continue for at most another year.

The index of reproductive potential (reinvestible sur-

plus in relation to capital inputs plus labor inputs) drops from roughly zero during the late 1970s to -0.175 in 1982—again an historic low and below the level from which recovery is possible.

The same problem is indicated in another way: Total tangible output *plus* the replacement requirement built into the economy breaks sharply downward during 1981, the loss coming entirely out of current output (as the graph on total surplus shows), meaning that the economy moves far out of the range at which it can meet the replacement requirement.

In this projection, we are dealing with magnitudes of decline so large that the fundamental case is undeniable that America will not recover from this depression. The graph of total capital inputs net of depreciation, shows that this index, currently at zero, falls negative (note the wide scale) and fails to reach positive numbers by 1985.

However, under this simulation, the only possible condition for even this less-than survival level of net capital inputs is a decline in labor inputs, shown in the graph of Variable Capital (V), to less than the 1970 level. Strictly speaking, that is the format of a fascist economy. However, even under these conditions, *total output will collapse*.

The synfuel disaster

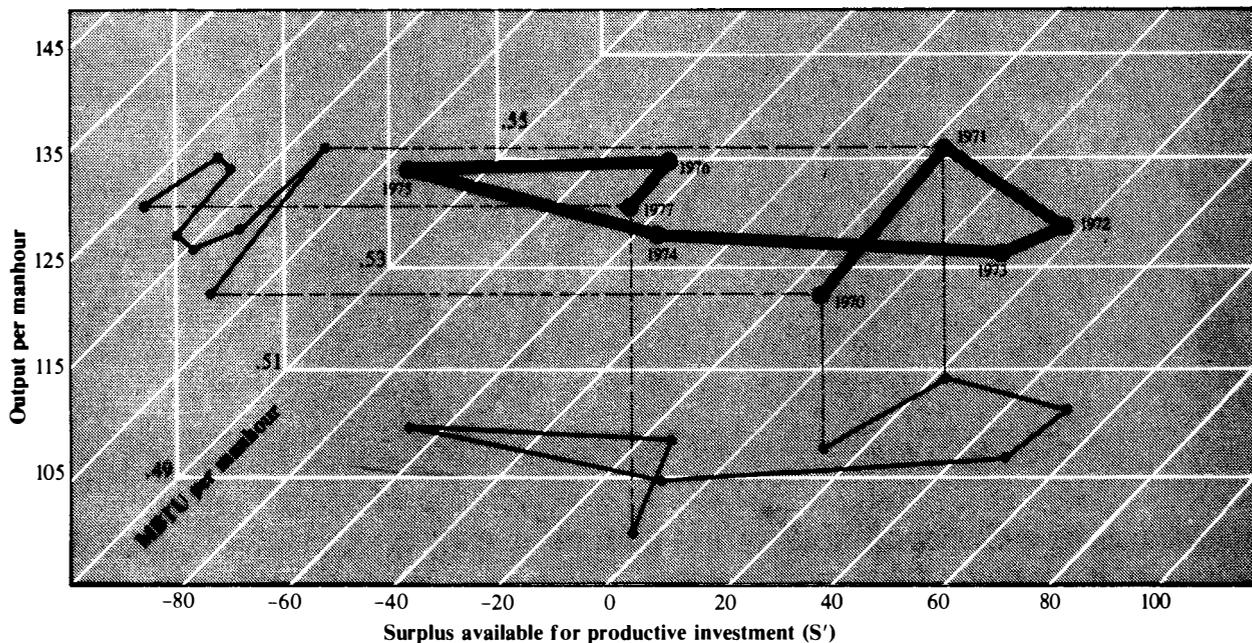
To reemphasize the point, this simulation merely projects the consequences of past mistakes, assuming that the Carter administration makes no further mistakes. Actual conditions promise to be much worse.

The administration currently proposes to build \$280 billion worth of synthetic fuel plants during the next five years.* These will replace imported oil, not produce additional energy. Strictly speaking, they are an overhead cost to the economy. The graphs simulate economic conditions identical to the first group, but adding the cost of these synthetic fuel plants. In this case the decline is much more rapid. (see graphs on pages 22 and 23)

Reinvestible surplus absorbs virtually the entire decline, as it must, because this is the economy's fund for all new investments. It reaches the impossible negative figure of \$297 billion. Total surplus (value added in tangible terms); also becomes *negative* by 1982. At this point the economy no longer meets circulating capital, let alone fixed capital costs.

*Congress has pending at the moment a bill allocating \$88 billion over 10 years for synthetic fuel development. The Carter administration has reserved the right to place this program under periodic review and funding increases. Policymakers like Felix Rohatyn of New York's Big MAC, an advocate of the ENCONO proposal for regional energy self-sufficiency, has recommended a funding level of hundreds of billions of dollars over the next decade. The \$280 billion figure is a proposal being floated by the energy crisis managers at the Federal Emergency Management Agency

FIGURE 4
Spiraling collapse of the economy



As the concluding graphs of the series demonstrate, there is only one circumstance under which this economic program could be carried out, namely, if labor inputs (variable capital) are reduced to zero, i.e. if labor is entirely unpaid.

Adolf Hitler and Albert Speer demonstrated conclusively, on the Auschwitz-Buchenwald model, that this type of policy could be carried out, but also demonstrated that it could only be done with labor paid on straw soup. Again, the timing of the economic phase change is during 1981.

The minimum requirements for survival

The final set of graphs indicates the minimum survival conditions for the American economy. Against the first scenario, we projected (starting in 1980) a 3 percent per annum improvement in our productivity measure above the long-term baseline established in the past decade. The graphs (see pages 22 and 23) show an economic recovery in the medium term.

Three percent productivity growth is extremely difficult to achieve; it corresponds to the best periods of postwar American economic behavior, and those were prepared by earlier years of research and development and higher education of a new generation in the sciences. But we believe that it is still within the range of possibility. Another simulation incorporating a 2 percent per annum productivity increase showed that this level was insufficient to promote long-term economic recovery.

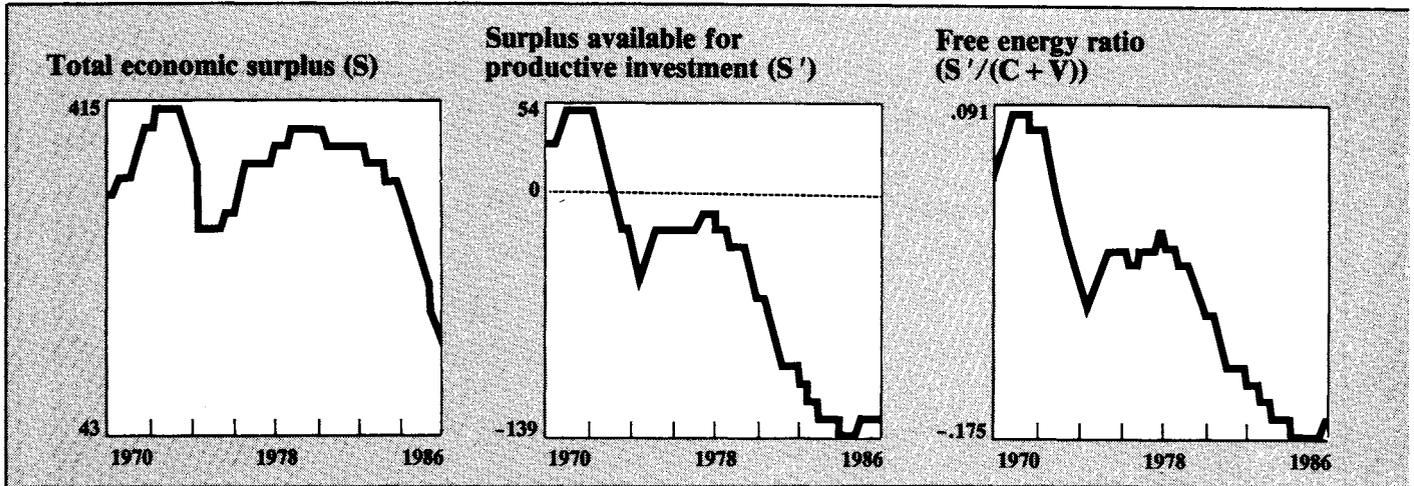
The present set of computer results establish an *absolute minimum*.

In an important way, this projection is more distressing than the earlier projections showing how the economy might *not* survive. The critical parameters, including reinvestible surplus and the index of reproductive potential do not recover until 1984. Reinvestible surplus only rises above zero in that year, and reproductive potential does not recover its previous (low) peak until 1986. At this point only is it possible for the gross output parameters, total surplus, variable capital, net capital inputs, and total output, to rise from fairly low levels.

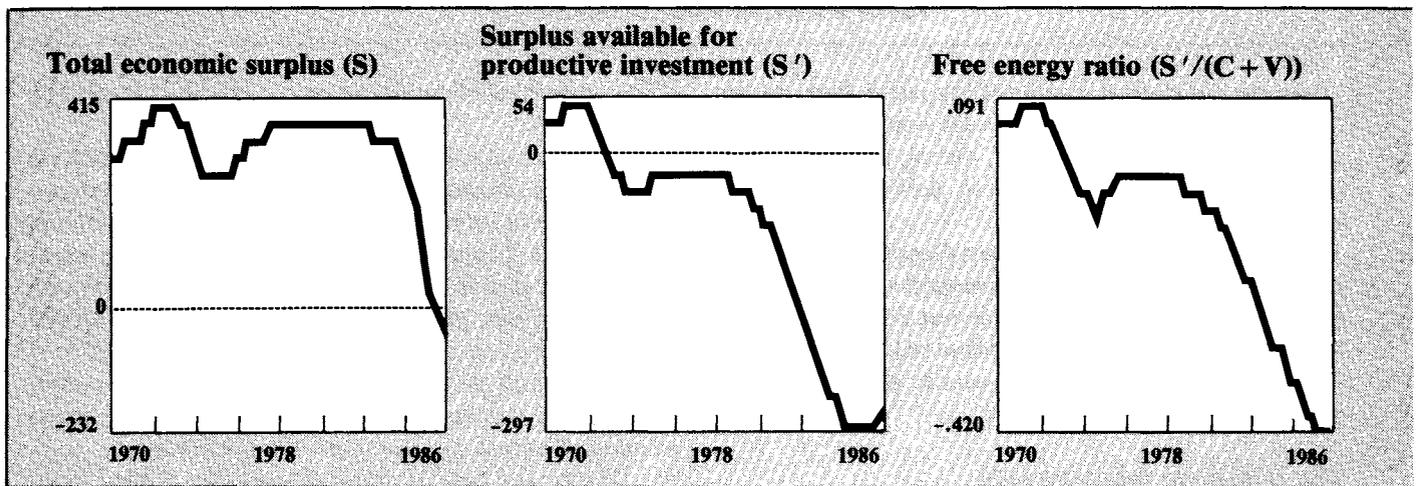
Under the best of circumstances, the United States faces a four-year period of consolidation. Employment of the most-efficient energy technologies, tax policies which offer strong incentives to goods-producing investment and strong penalties against services investment, university programs favoring the physical sciences and engineering rather than the liberal arts, upgraded training programs for skilled workers, monetary arrangements favoring long-term credit extensions and a gold-backed international monetary system would pull us through.

However, we have no more than a year left to take such measures on a crash basis. If we delay longer than that, or worsen the situation in the manner proposed by the Carter administration, the economy will undergo the "phase change" described rigorously in Dr. Bardwell's analysis. And this will constitute a point of no return for what was once the world's strongest industrial economy.

Projection of current trends in the U.S. economy through 1985

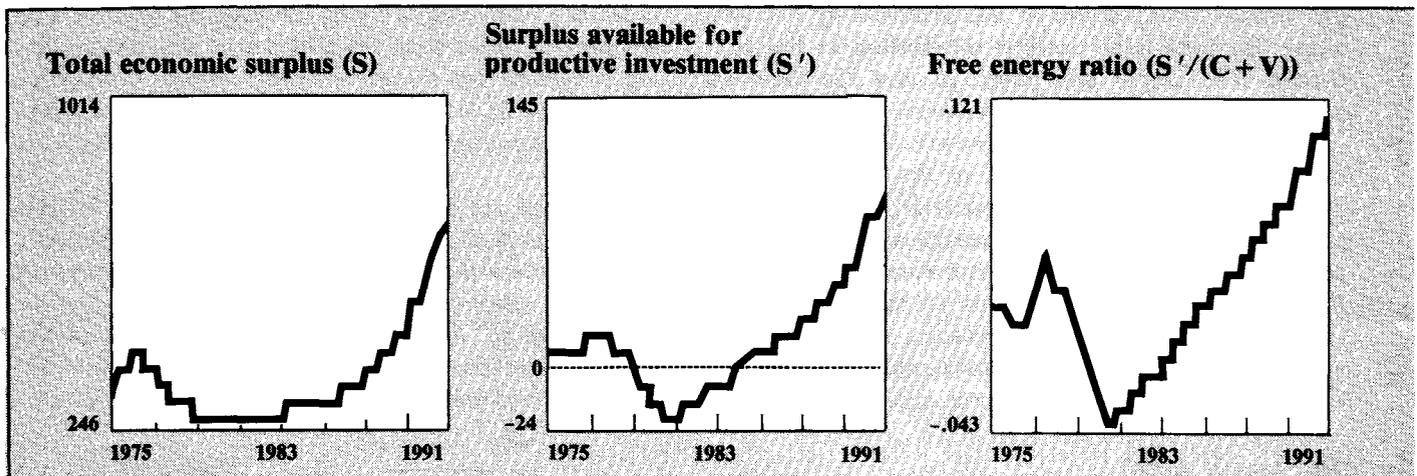


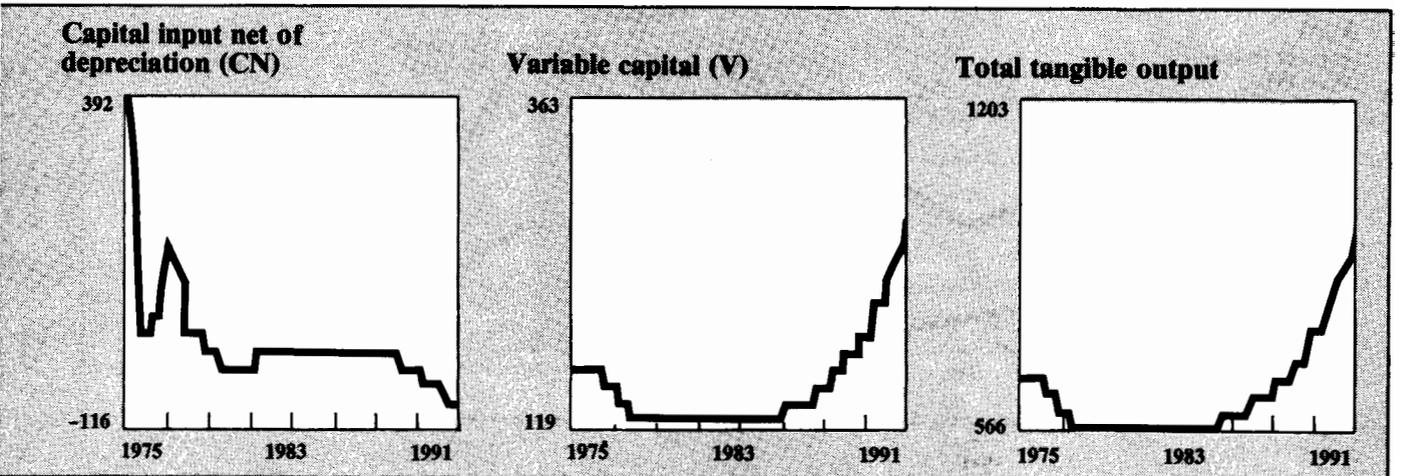
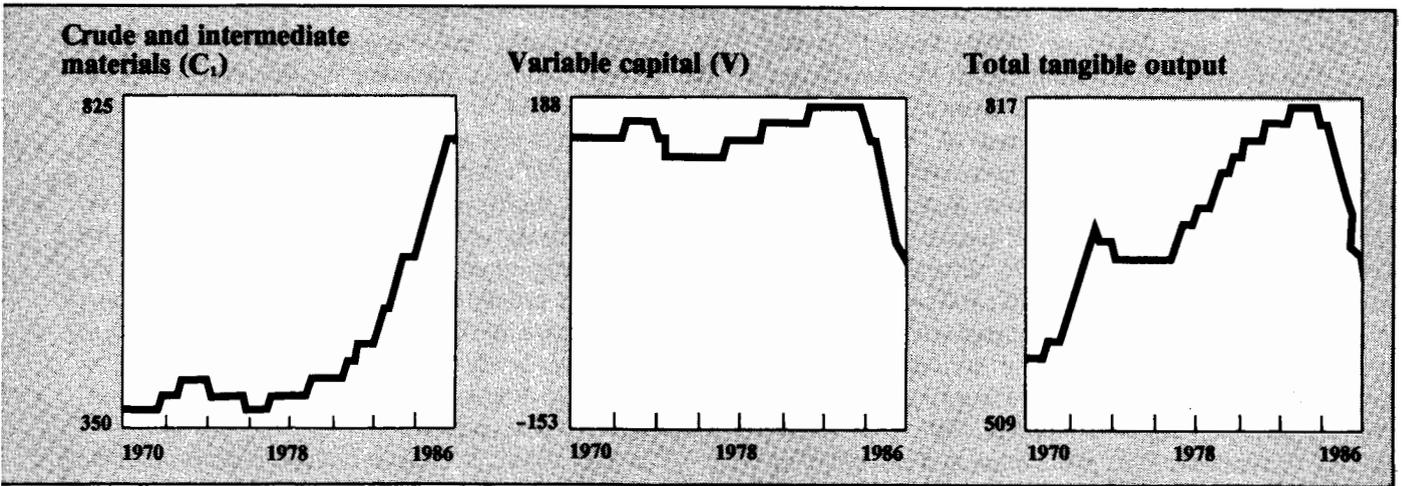
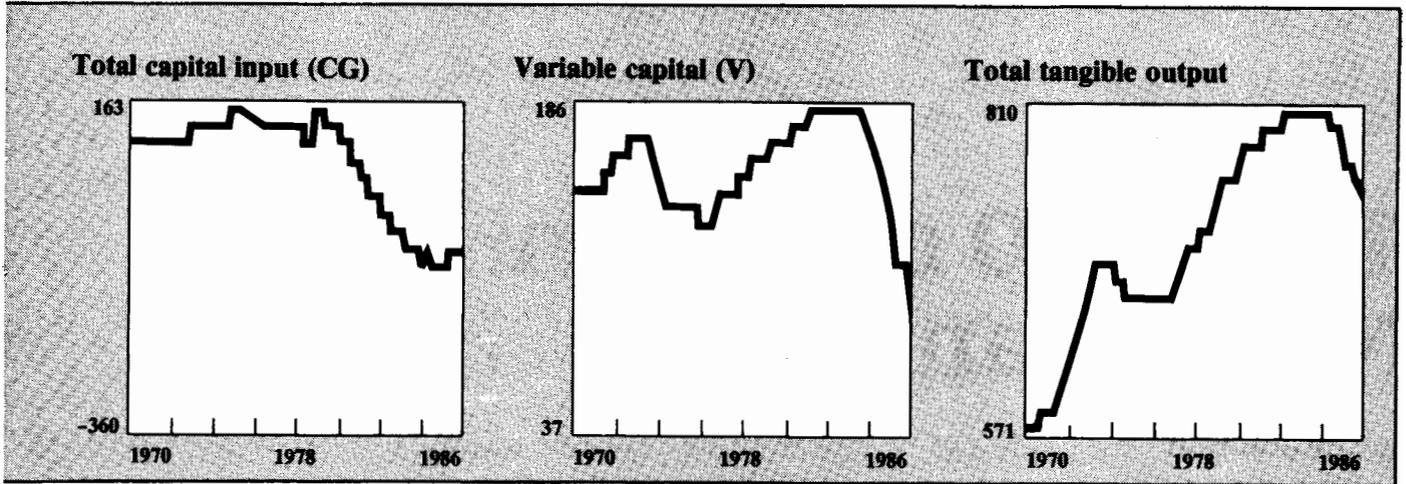
Consequences of a Carter administration plan to invest \$280 billion in synthetic fuels over 5 years



Minimum survival condition for U.S. economy

Projection of 3 percent productivity rise per year above base-line trend through 1990





The 1980 recession: Not like any other

by Leif Johnson

Just released production figures for consumer and industrial production for March are strong proof that the U.S. economy has undergone a "fundamental restructuring" along the lines announced last year in the New York Council on Foreign Relations "1980s Project" documents. The economy, under the impact of Volcker-Carter economic policies has been operating since October 1979 under conditions identical to Germany of 1934-1936.

Consumer durables, notably auto and home construction have undergone a decline more precipitous than the 1974-1975 recession, the deepest since World War II. But, unlike the 1974-1975 collapse, industrial goods production has remained extraordinarily robust.

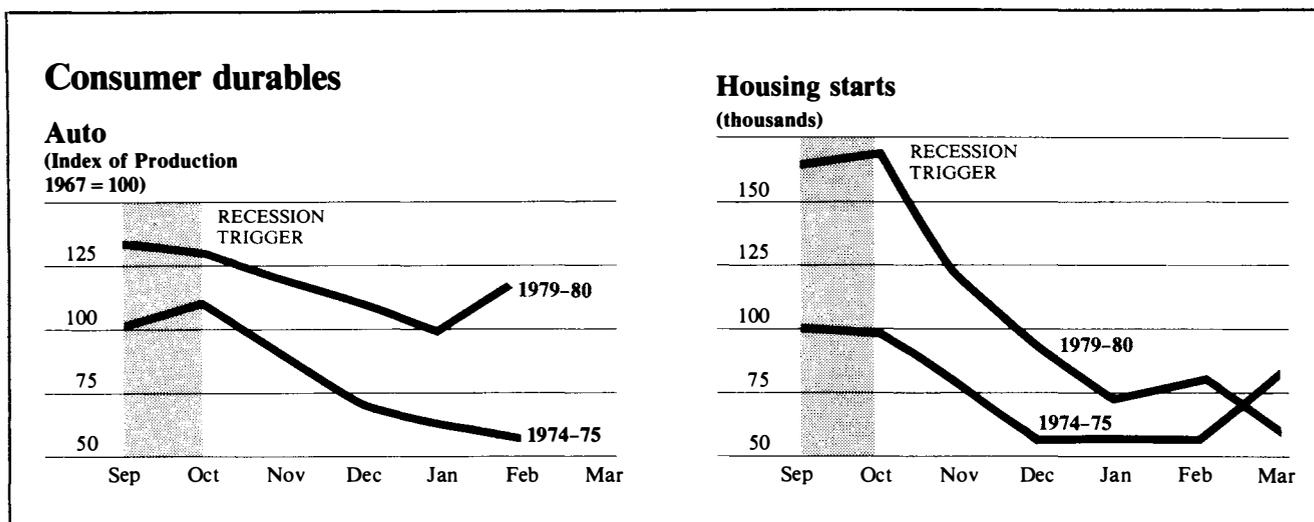
Heavy industrial goods investment is continuing in pollution controls, aerospace, and mining equipment, particularly oil drilling and metal threading equipment, while construction shows a marked shift from homebuilding to synthetic fuels production and re-equipping

oil refineries to accept domestic heavy crudes. And just ahead, massive construction for the MX missile mole holes promises to draw off a very large proportion of the nation's construction capacity.

Energy autarky and disguised military build-up in the private sector is intended by the Volcker-Carter strategists to lead to Federal Emergency Management Agency-Department of Energy and Department of Defense takeover of the American economy.

The shift taking place in the American economy shows not merely investments in capital goods at the expense of the consumer goods sector, but that the capital goods orders are flowing into waste categories like antipollution devices, synthetic fuels and refining of heavy domestic crude oil, and disguised rearmament. As the LaRouche-Riemann model indicates, the consequences are severe and swift.

The most dramatic indicator of the liquidation of the



consumer goods sector is the rout of homebuilding which went from 169,000 new homes started in October 1979, the inception of the Volcker policies, to a dismal 50,000 units begun in March 1980. The wipeout in housing is the sharpest since the Great Depression; new home building will be the fewest since the 1930s.

Without relief in interest rates, no end to the decline is in sight. Builders in the four county Milwaukee, Wisconsin area for example claim an 85 percent decline in new starts over last year—itsself a poor year. Builders in Chicago report exactly one new home started in the first three months of 1980. Remaining areas of new starts in the southwest, California and the sunbelt are mostly due to construction mortgage money that was committed earlier, but builders are doubtful that consumers can afford the final product as a result of Volcker's credit measures.

Yet in this same period, nonresidential construction remained up. Year to year figures for February 1979 and 1980 show a 12 percent current dollar increase which, adjusted for inflation, means that this sector has just held its own. A construction industry official explained: "the oil companies are awash with funds. They are unconcerned about the interest rates and they are spending plenty."

Fluor Corporation, which formerly did 90 percent of its business overseas, particularly in the Middle East, is now betting heavily on the domestic market, much of which involves revamping Texas and Pacific Coast refineries to handle domestic heavy crude oil. In the Houston area, one third of all nonresidential construction is committed to refitting oil refineries including a massive \$200 million project west of that city.

A Utah Associated Building Contractors spokesman was almost exultant over construction prospects in the Overthrust Belt oil projects and related synthetic fuels deals which already have produced over a billion dollars worth of construction.

The pattern here is a private sector buildup for energy autarky for the United States in prelude to capturing the multi-billion dollar Department of Energy synthetic fuels budget over the next five years. Next year contractors will begin work on the \$4 billion Intermountain Tower Project and a huge coal processing complex.

The MX missile system, which is beyond the materials producing capacity of the present U.S. economy, nevertheless promises enormous flows of dollars into construction.

Machine tools

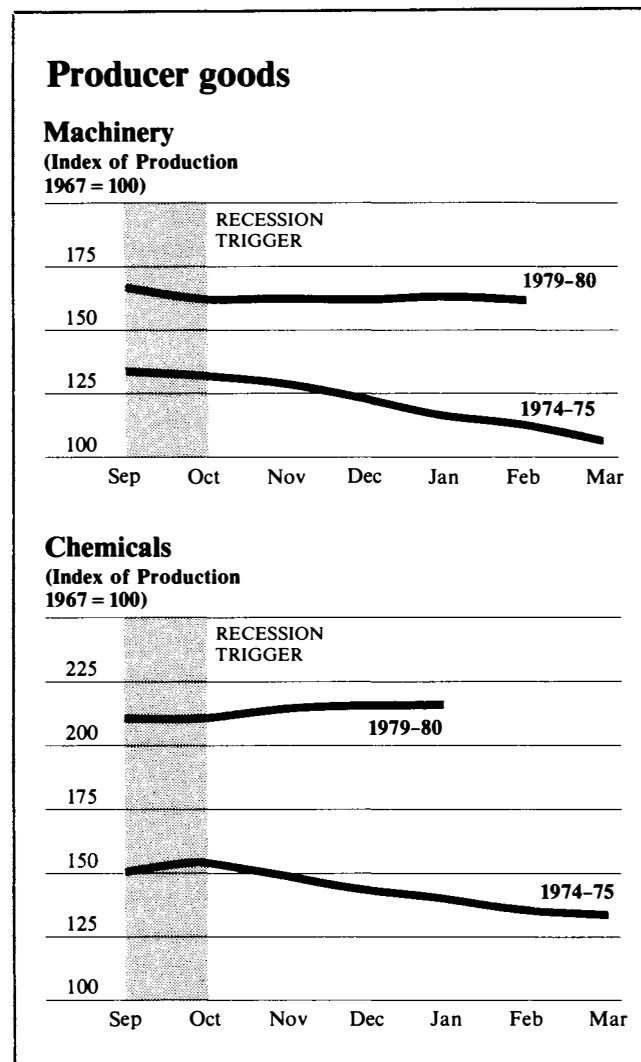
The machine tool sector of the economy presently demonstrates that the overall U.S. economic profile is

almost the exact opposite of that of the 1974-1975 recession.

In the first three months of 1975, for example, current dollar value of orders for metal-cutting tools was down from the previous quarter value of \$278 million to \$176.25 million. Orders for metal-forming tools dropped to \$650,000 from \$48.85 million.

But in the first three months of 1980, orders for both metal-cutting and metal-forming tools were up over the last three months of 1979: from \$1,122.55 million to \$1,205.2 million for the former and from \$267.75 million to \$288.3 million for the latter. Where are the orders coming from?

Heavily tied to auto production, machine tools usually slump badly when auto is hit. This time, however, although auto promises to enter a permanent decline, machine tool sales to the industry are being fed by orders for nearly \$40 billion worth of equipment for production



of pollution control devices. There is good reason to believe that the auto industry may never return to previous production levels of cars and trucks. This is exemplified by Ford's decision to permanently close three plants, including its Mahwah, New Jersey assembly location, and to permanently dismiss 15,000 workers, and by the federal government's decision April 18 to turn down the Chrysler loan guarantee. There is speculation that Chrysler's facilities, regardless of the disposition of the company itself, will be turned toward war material production and that some part of the antipollution device investment could be similarly turned around.

Aerospace orders

According to industry statisticians, the machine tool industry is "strong across the board" and is receiving heavy orders from the oil industry and aerospace. The oil orders are buoyed by heavy purchases of pipe-threading equipment, while aerospace reflects the largest aircraft industry backlog ever recorded.

Aircraft, at year end 1979, showed an order backlog of \$23 billion, in contrast to a 1975 year-end backlog of \$6.0 billion. The usual explanations of the very heavy orders from air carriers are that newcomers are scrambling to enter the deregulated market. But many of these orders are "soft," and the question remains why they were placed and why the aerospace companies are accepting them as bona fide.

The labor angle

The Schachtian shift in the U.S. economy has produced very high unemployment in heavily unionized sectors of the economy and relatively strong employment in nonunionized economic sectors and areas of the nation.

For example, while northern homebuilding is all but at a standstill, unemploying large numbers of unionized building trades workers, sunbelt, southwestern and Pacific petroleum-related nonunionized areas show strong employment. The intensifying "open shop" drive in construction and FEMA's announcement of future "labor registration" cards and restrictions on the free flow of labor, particularly in labor-short categories and locations, augur a very rapid collapse of unionized labor and their higher wage levels.

The LaRouche-Riemann computer projections indicate, however, that to sustain the Schachtian economy, as envisioned by the Carter-Volcker strategists, requires virtual zero-wage levels in some industries in order to maintain an apparent profit rate. This process would "mature" considerably more rapidly in a Schachtianized U.S. economy than in the economy of 1930s Germany.

Economics: the

by Dr. Steven Bardwell and Dr. Uwe Parpart

In a recent series of articles in the *EIR*, Contributing Editor Lyndon LaRouche coined the term "thermo-hydrodynamics" to describe the subtle combination of energy-technical processes with economic (financial and investment) activity by which the time evolution of a national economy can be described. The sometimes conflicting interaction of these two levels of an economy determines the dynamics of the current crisis in the U.S. economy and an understanding of this interaction is essential if this crisis is to be resolved or longer-term policy questions successfully decided.

Concrete examples of the qualitative character of this economic-technical determination are abundant: a recent *EIR* economic analysis of the underlying energy balance and flow in the U.S. economy (by Goldman and Parpart) used Fig. 1 to discuss the changes in energy consumption in the United States since the 1973 oil price rise. As these authors noted, the U.S. economy has, on the technological side, become more energy efficient, as evidenced by the reversal in 1974 of the curve plotting output per manhour against energy use per manhour. That is, output per manhour is rising after 1974, while energy use per manhour is falling. This measure of efficiency has been used by several economists to document their claim that the U.S. economy has successfully adapted to higher energy prices and can respond to continually rising oil prices with an otherwise beneficial program of conservation and increased efficiency.

This conclusion is fundamentally misleading because it ignores the underlying duality of any economy—the interaction between this technical side and the economic financial superstructure. Fig. 2 shows the data from Fig. 1 now plotted in three dimensions, as a function of changes in capital investment. That is, Fig. 1 is a two-dimensional projection of the curve in Fig. 2. In this

thermohydrodynamic view

more complex diagram, the two phases of the economy are shown together and the real impact of the supposed "efficiency" is explained. The increase in energy efficiency is a result of the substitution of energy by labor and capital by labor. Indeed, a careful comparison of these series with productivity for the same period (another *economic* measure) shows a *slowing* rate of growth of productivity as labor replaces capital. As we shall see, these developments presage dire consequences for the economy as a whole.

Similarly, as LaRouche's analyses in a recent *EIR* article shows, tax policy, capital investment, and technological innovation, are intimately related. Their mutual interplay shows quite strikingly in historical analyses done of the aerospace industry in the U.S. and Germany [for example, the one done for the American Aerospace Institute in 1976]. Technological innovation is stymied without aggressive programs of capital investment, but capital investment depends sensitively on accounting and tax procedures regarding depreciation. The net result is that in U.S. industry there is an *inverse* relationship between capital intensity and obsolescence. This is due in large part to tax and accounting laws specifying depreciation at historical values (and hence understating it during periods of inflation and so decreasing reinvestible profits). In contrast, West Germany, with a tax law based on *replacement cost* depreciation, has maintained much larger rates of capital formation.

As both of these examples show, there is a deep and reciprocal interaction between the technical half of an economy—as measured by its energy consumption, technological level, and research programs—and that economy's "superstructural" half—as measured by capital investment, depreciation, and profit rates. In a causal sense, the mediation between these two halves is provided

by the productivity of the labor force. The ultimate impact of capital investment is determined almost solely by its influence on productivity. Conversely, the economic significance of energy-capital tradeoffs and the intro-

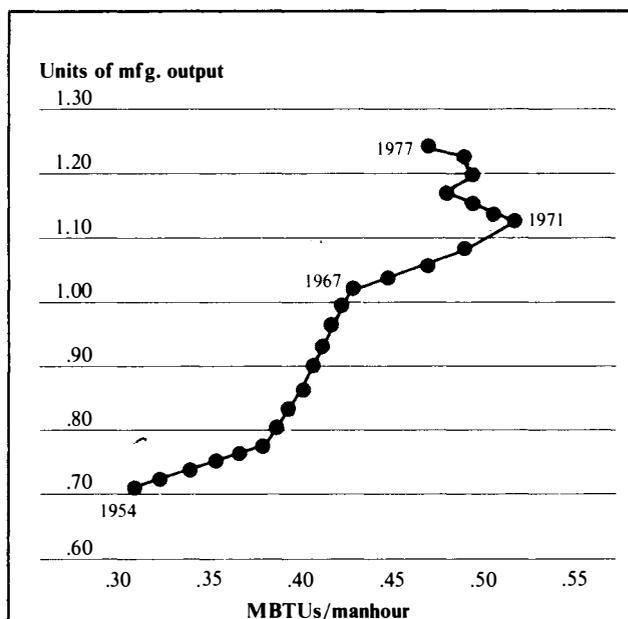


FIGURE 1
Apparent energy efficiency in U.S. economy.

This graph shows the trajectory of a scalar measure of the energy balance in the U.S. economy over the past decade, plotting output per manhour against energy use (in million BTU) per manhour. The inflection in the curve at the point of the 1973-74 oil price rise has been taken by many to indicate the economy's entry into a new stage of development in which energy use and economic growth are decoupled.

duction of new technologies is *not* directly on profits, but rather on productivities.

This insight is not, of course, new. An early American economist, E.P. Smith—Henry Carey’s self-described “mentor,” and a seminal influence on the Meiji capitalist circles in 19th century Japan—noted the same inseparability of energy and economics. So did the other “American System” economists, like Friedrich List, Henry Carey himself, and, from a different standpoint, Karl Marx.

It has, however, in the past five years, become fashionable in economic circles to downplay or totally ignore what LaRouche calls the thermohydrodynamics of the economy. It has been replaced by ideas like “decoupling”—the supposed independence of energy growth from economic growth—and the “economics of scarcity-

ty”—the theory that capital investment and productivity meet insurmountable barriers because of technical considerations (like energy). As we shall show, these ideas are not only wrong, but policy based on them is catastrophic. The current decrepit state of U.S. industry is due to their application; the problem of structural inflation is worsening because of the “cures” proposed by this new economics. In fact, a severe economic collapse is imminent unless these policies are reversed.

Elaboration of the LaRouche-Riemann analysis

The LaRouche-Riemann economic model has proven to be a powerful tool for the analysis of the sort of phenomena in the economy falling under the name of

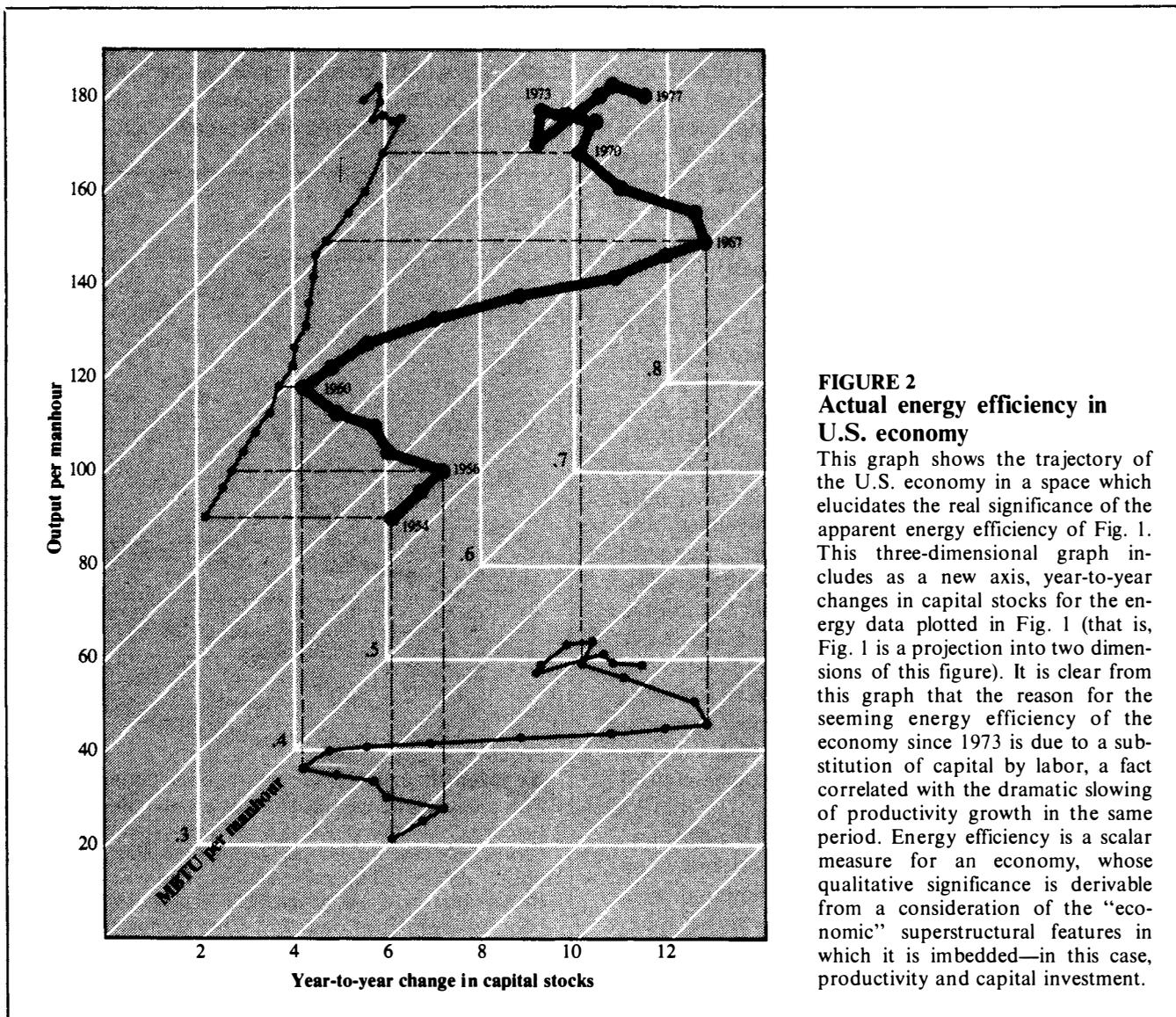


FIGURE 2
Actual energy efficiency in U.S. economy

This graph shows the trajectory of the U.S. economy in a space which elucidates the real significance of the apparent energy efficiency of Fig. 1. This three-dimensional graph includes as a new axis, year-to-year changes in capital stocks for the energy data plotted in Fig. 1 (that is, Fig. 1 is a projection into two dimensions of this figure). It is clear from this graph that the reason for the seeming energy efficiency of the economy since 1973 is due to a substitution of capital by labor, a fact correlated with the dramatic slowing of productivity growth in the same period. Energy efficiency is a scalar measure for an economy, whose qualitative significance is derivable from a consideration of the “economic” superstructural features in which it is imbedded—in this case, productivity and capital investment.

thermohydrodynamics. It embodies three critical features of an economy, namely:

- 1) The capital investment-productivity causal link;
- 2) A distinction between productive and nonproductive economic activity, and
- 3) The capability to treat noncontinuous (singular) behavior.

The Riemannian model has forecast with repeated accuracy the economic consequences of policy decisions as disparate as trucking deregulation and the credit policies of Federal Reserve Chairman Volcker.

In the past two months, an elaborated set of equations have been developed for the model which now allows a systematic treatment of depreciation and net capital formation. These new equations are a simple generalization of the previous equations (see glossary, p. 35). Any economy can be studied from a thermodynamic point of view, and these equations have a deep thermodynamic significance permitting a detailed analogy with classical thermodynamics. The fundamental problem which motivates both economic and thermodynamic systems analysis is that of "useful" or "free" energy. In both systems, the amount of accessible energy is less than the total energy. Thermodynamics and economics are (or should be) directed toward minimizing the difference, the wasted energy. Specifically, we are interested in *maximizing* the ratio of free to total energy—a quantity we call the free energy ratio.

(Classical thermodynamics only rarely looks at this *ratio*—studying rather the difference between free and total energy. As we shall see, this approach is incorrect but follows from Clausius' formulation of thermodynamics: "The energy of the world is constant; the entropy tends toward a maximum.")

The distinction between total and free energy can be seen from an example cast in thermodynamic terms. If we have four gallons of water at 0 degrees Centigrade and 1 gallon at 100 degrees Centigrade, in a room at 20 degrees (ambient), useful work can be extracted from the temperature differences between the two bodies (we could, with an ideal engine, change all the internal energy into electricity, for example).

The total internal energy of the system is the sum of the energy of the two parts. Now, if we mix the five gallons of water together, we will have five gallons at 20 degrees C, a mixture with the same total energy as we started with—but with no "free" energy. Since the temperature difference between the water and air is zero, no work can be done with the total (internal) energy in the water. The free energy ratio has changed from 1 to 0!

It is clear that the free energy ratio will be intimately related to both the economic and technical aspects of the economy; in some sense, it must measure the appropri-

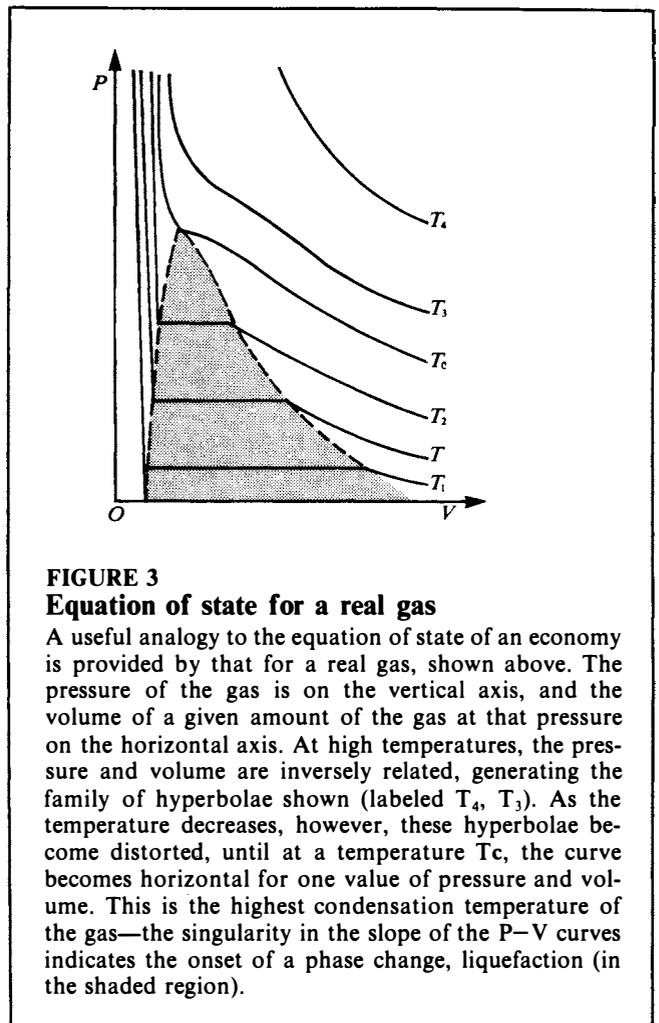


FIGURE 3
Equation of state for a real gas

A useful analogy to the equation of state of an economy is provided by that for a real gas, shown above. The pressure of the gas is on the vertical axis, and the volume of a given amount of the gas at that pressure on the horizontal axis. At high temperatures, the pressure and volume are inversely related, generating the family of hyperbolae shown (labeled T_4 , T_3). As the temperature decreases, however, these hyperbolae become distorted, until at a temperature T_c , the curve becomes horizontal for one value of pressure and volume. This is the highest condensation temperature of the gas—the singularity in the slope of the P - V curves indicates the onset of a phase change, liquefaction (in the shaded region).

ateness of the economic superstructure to the underlying mode of industrial production. A fall in the free energy ratio indicates the transition of the economy into a state of "inappropriate" economic reproduction—a property of the change shown in Fig. 1 and 2 during 1973-1974, for example. A rising value of the ratio, on the other hand, indicates an "appropriate" economic superstructure, whose investment pattern is enhancing the productivity of the labor force, and, in turn, fostering capital formation. Zero or negative values of this ratio are also possible, indicating a net *destructive* effect of the economic activity on the physical economy. A value of zero for this ratio is a "crucial point" in thermodynamic terms, measuring the onset of a phase transition or other singular phenomena (in economic terms, a depression).

The first step in a thermodynamic analysis of an economy is to find the parallels to the two laws of thermodynamics; the first, an energy balance law, and the second, a cause for dissipation or impossibility of attaining a free energy ratio of 1. (Sometimes the first

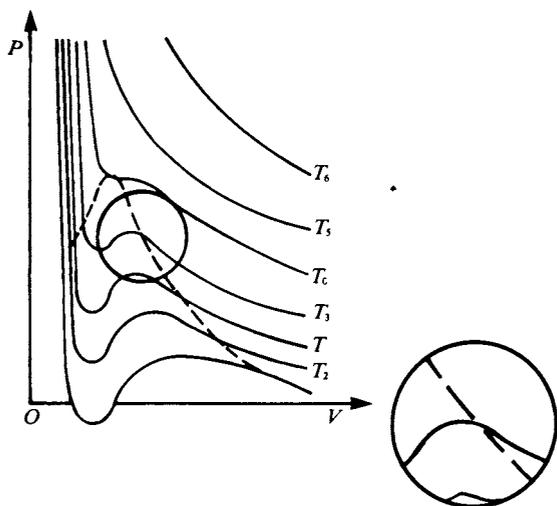


FIGURE 4
Phase diagram for an economy

By the same arguments which underlie classical thermodynamics, it can be shown that a capital-intensive economy has a phase diagram similar to that for a real gas, where pressure is replaced by $\alpha \cdot \delta$ (see text) and volume by V (variable capital). The depreciation rate corresponds to temperature. Thus, the hyperbolae shown above for T_6 expresses the fact that for a given depreciation rate (i.e., capital investment and composition of investment) the size of labor force and productivity required to maintain that depreciation schedule are inversely related. And, as in the case of a gas, lowering the depreciation rate corresponds to cooling of the economy, a process which can be carried on for only a finite amount of time before a phase change occurs, in the case of the economy corresponding to a depression.

The inset shows in greater detail the dynamics of this phase change. It is known that some gases have the property that they can be supercooled below their nominal condensation point predicted by the phase diagram shown in Fig. 3. In this case, the isotherm (the path at constant temperature) changes the sign of the slope. In the case of the economy, this property characterizes the present situation in which a phase change has yet to occur, but during which the dynamics of the economy are opposite from their normal behavior. The usual methods for dealing with inflation, for example, not only do not work, they make the problem worse, precisely because of the inflection in the phase diagram.

The trajectory of the U.S. economy over the last 10 years does not follow an isotherm, but has followed a trajectory taking it from near the curve labeled T_6 to that near T_3 , as the productivity-composition product (the vertical axis) has decreased, and the labor force increased (see Fig. 5).

law is erroneously called the conservation of energy—it is clear from its economic version that it actually describes the law of energy transfer.)

The economic first law (which is derivable from the differential equations in the Riemannian model), is:

$$\begin{aligned} \Delta E &= \text{change in total economic value} \\ &= \delta W + \delta Q \\ &= \text{increment of capital consumed and reproduced} \\ &\quad + \text{increment of capital not consumed} \\ &\quad \text{and replaced annually.} \end{aligned}$$

That is, there are two distinct forms of economic value added by the production process. The first is that portion of production which is consumed (and reproduced) continually in the economic process. In this category belongs, for example, productive workers' wages (V), raw materials, etc. The dynamics of this portion is basically different from the second category which includes all economic production "lost"—for whatever reason—from continued production. This portion includes all waste, nonproductive expenditures (military, most bureaucratic expenses, etc.), and that portion of plant and equipment not consumed during a given production period (i.e., the nondepreciated part of gross capital stock).

As in thermodynamics, where the first law is usually written $\Delta E = \delta Q - \delta W$ (δQ being heat exchanged, δW being the work done by the system), neither δQ nor δW are so-called "state variables." This means that their value depends on the trajectory of the system as it changes and not only on the initial and final states. Thus, δW and δQ may differ depending on the path taken during the change as long as their sum remains the same. Therefore, we must express δW and δQ in terms of state variables like in the economic case, V , C_1 , C_2 , and S' . The work-like term in our economic first law is straightforward and some algebraic manipulation shows that:

$$\delta W = \alpha \delta dV + (1 - \alpha) \eta dC.$$

(For simplicity, we take $\eta = 0$ in this discussion. This is not a restriction in principle and all our conclusions hold, though in more complex form, for nonzero η .)

Thus, the path-independent difference has been replaced by a total differential.

The analysis of the heatlike term is more subtle and involves the equivalent of the second law of thermodynamics formulated for an economy. Clearly, one term of the heat-like δQ is given by d , the nonproductive expenditures in the economy. But, the economy also produces fixed capital which is added to the total economic value but is removed from circulation. This amount depends on cumulative capital formation, δC_t , and on the depreciation of that capital over its lifetime. That is, the second contribution to δQ is itself path-dependent. However, it

is easy to see that we can change δC_f into a total derivative by introducing an integrating factor, which we call R, such that:

$$\delta Q = d + dJ = \int_1^2 (\delta C_f / R) + d$$

(Note that for d , R is in effect 1; d depreciates completely each year. In thermodynamics, temperature is introduced as the integrating factor for heat, exactly as we have defined R. Note also that d or nonproductive expenditures should be distinguished from differential expressions such as, in the above case, the derivative dJ .)

Now, R must be the factor that measures the noncirculating part of fixed investment, that is, R is simply the depreciation rate. The equivalent of the second law of thermodynamics states for the economy that:

$$d + dJ \geq 0$$

for any complete cycle, or:

$$d + dJ \geq \int_1^2 (dC_f / R) + d$$

This means that it is never possible to reduce "overhead" costs to zero, and that the difference from zero is the "entropy" of the economic system.

These results can be combined into the so-called fundamental relation of thermodynamics:

$$\Delta E \leq R dJ + d + \alpha \delta dV$$

where, we can make the parallel with thermodynamic variables:

Thermodynamics	Economics
Pressure (P)	$\alpha \delta$
Volume (V)	Variable capital (V)
Temperature (T)	Depreciation rate (R)
Entropy (S)	$J = \int (\delta C_f / R)$

Finally, we can derive the equivalent of the *free-energy ratio* for an economy, by analogy with the Helmholtz free energy in thermodynamics:

$$\begin{aligned} \Delta \mathcal{F} / E &= \Delta(E - TS) / E \\ &= S' / (C_1 + C_2 + V) \end{aligned}$$

(Strictly speaking, \mathcal{F} is the free energy at constant temperature. We believe this to be the closest analogy with free energy in economics.)

This is a striking result; it says that the free energy ratio is equal to the portion of surplus productivity reinvested as a ratio of the total economic activity.

Several important features of the thermohydrodynamics of the economy—that is, the relation between the economic superstructure and industrial base—are evident from this formulation:

- 1) The useful work available from the economy is

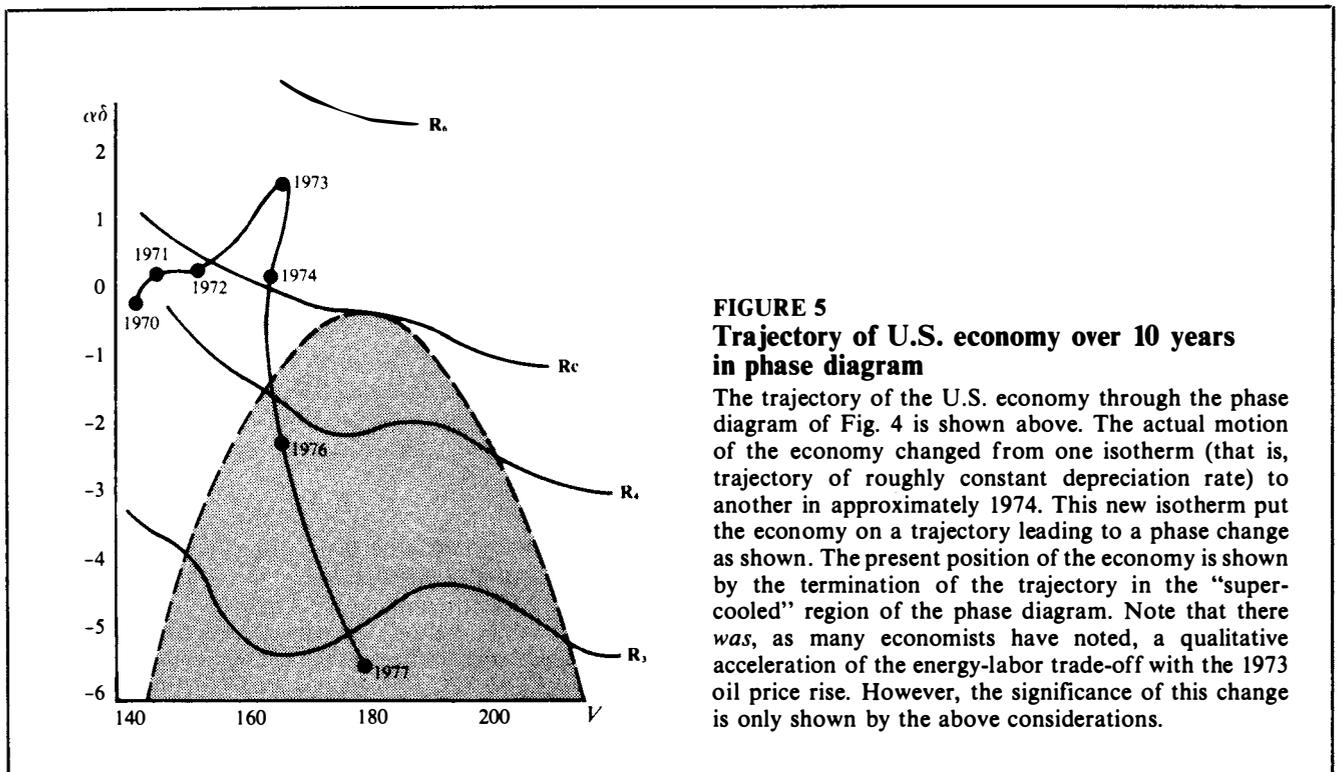


FIGURE 5
Trajectory of U.S. economy over 10 years in phase diagram

The trajectory of the U.S. economy through the phase diagram of Fig. 4 is shown above. The actual motion of the economy changed from one isotherm (that is, trajectory of roughly constant depreciation rate) to another in approximately 1974. This new isotherm put the economy on a trajectory leading to a phase change as shown. The present position of the economy is shown by the termination of the trajectory in the "supercooled" region of the phase diagram. Note that there was, as many economists have noted, a qualitative acceleration of the energy-labor trade-off with the 1973 oil price rise. However, the significance of this change is only shown by the above considerations.

dependent on the productivity of labor. In fact, at a fixed value of R,

$$(\partial \mathcal{H} / \partial V) |_{R} = \alpha \delta$$

This corresponds to the thermodynamic result:

$$(\partial \mathcal{H} / \partial V) |_{T} = -P$$

2) The depreciation rate plays a central role in the health of the economy, but in a somewhat surprising way. At first glance, it would seem that an individual firm would benefit from extending the life of its capital as long as possible. Obsolescence *from an accounting standpoint* is not bad since it represents a savings of capital investment. However, this is not actually the case. The higher the depreciation rate, the lower the entropy of the production process (see the definition of J) and the more efficient the economy becomes. High depreciation rates ensure this. As Samuel Insell is reported to have said: "The scrap heap is the capitalists' greatest asset."

3) The danger to the economy comes from a discrepancy between the economic (tax or legal) rate of deprecia-

tion and the actual (technical) rate. If the legal rate of depreciation is lower than the technical rate for any extended period of time, the observed rate of profit will fall secularly—or, to prevent this fall, the larger (nominal) amount of capital chasing a fixed or declining amount of profit will generate inflation. In either case, the conflict between the economic superstructure and the industrial underpinnings will push the real free energy ratio towards or below zero, causing a depression.

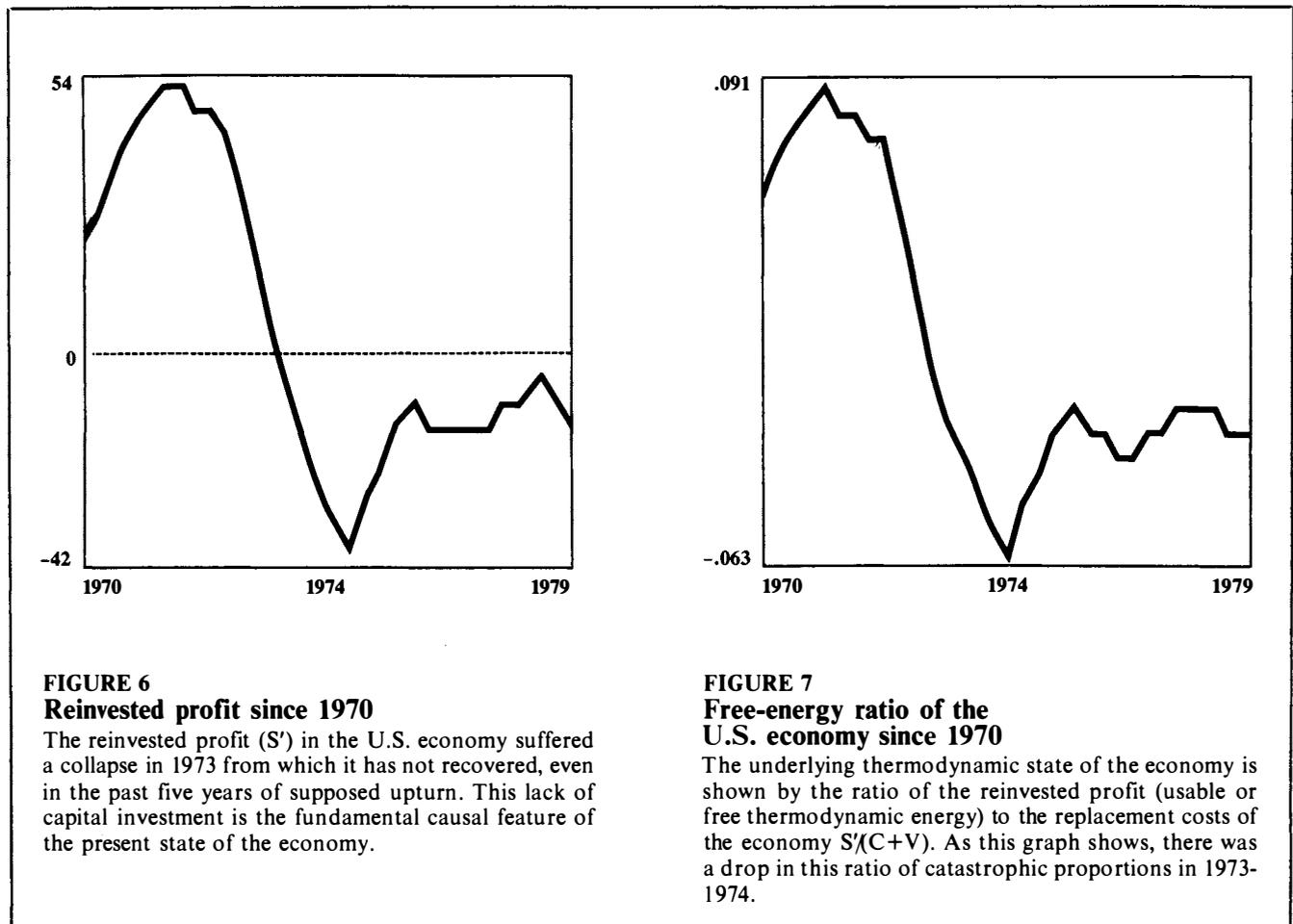
An 'equation of state' for the economy

The above analysis will apply to any economy, but to study the U.S. economy specifically, we must discover the equation of state for an advanced, capitalist economy. That is, we must supplement the above equations with a relation:

$$F(P, V, T) = 0 \rightarrow F(\alpha \delta, V, R)$$

The functional form of F will be determined by the causal relationship among the three state variables. Simple arguments show that:

$$(\alpha \delta + A)(V + B) = \text{const} \cdot R,$$



(Since productivity and the size of the labor force—at a given depreciation rate—can be traded off, we assume a simple inverse relation between the two: $(\alpha\delta + A)(V + B) = \text{const}$. Since at a fixed labor force, a higher productivity is required to sustain a higher depreciation rate, we assume: $(\alpha\delta + A)(V + B) + \text{const} \cdot R$. It appears that A decreases with increasing V , giving rise to a Vander Waal's equation of state.)

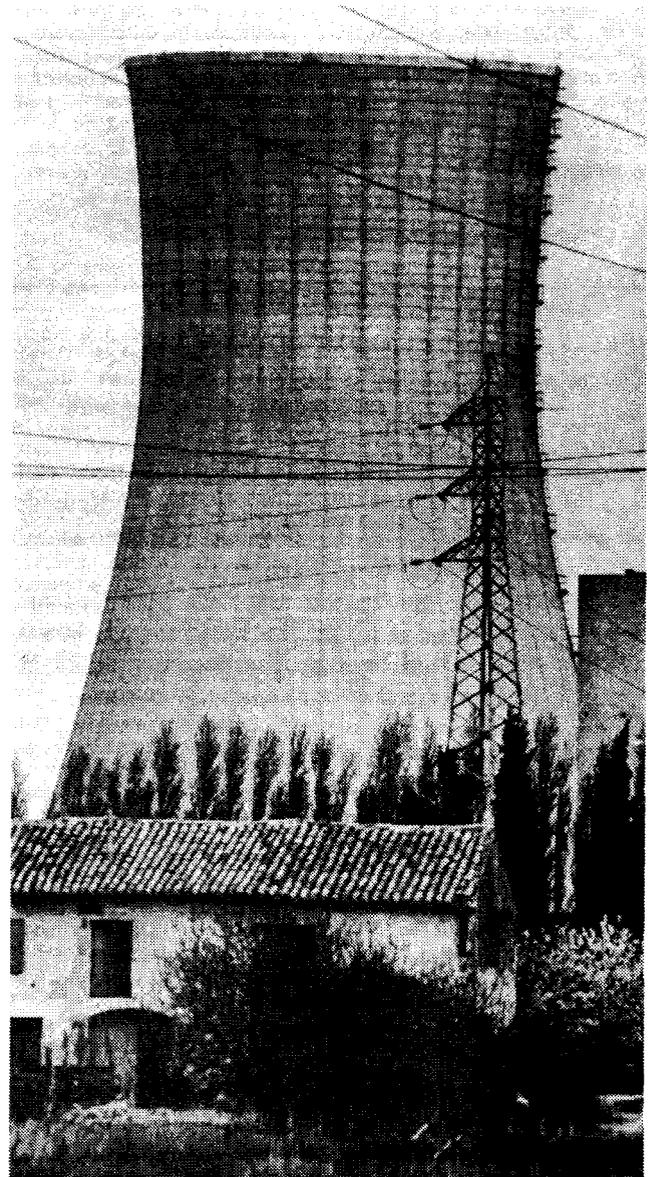
This form of equation of state is well known in thermodynamics and describes most real gasses. Figure 3 shows the "phase diagram" for such a gas. The pressure and volume, for high temperatures, are inversely related, generating a family of hyperbolae (the isotherms marked T_6 and T_5 in the figure). As the temperature is lowered, these hyperbolae become distorted, until at a temperature below the critical temperature (marked T_c in the figure), there is a discontinuity in the slope of the isotherm. The shaded region, enclosed by these discontinuities, is that region of the phase plane in which the gas has liquified.

We have drawn a similar plot for an advanced capitalist economy in Fig. 4. The vertical axis is now $\alpha\delta$, the horizontal axis, V , and the isotherms correspond to lines of constant depreciation rate. The higher the depreciation rate, the hotter the economy, and the farther away from a phase change. As the depreciation rate is lowered, and a discrepancy arises between the real and nominal value of capital, the "isotherms" become distorted. The value T_c corresponds to the point at which S' becomes zero, *either* because no surplus is reinvested *or* because net investment in plant and equipment is negative although V is increasing (this makes α negative). The dotted line delineates this region. In a real gas, as in the economy, the phase change process is more complex than Fig. 3 indicates. There are metastable states, so-called supercooled vapor states, in which a *gas* in the liquid region of the phase plane has not yet condensed, having yet to receive a shock or perturbation sufficient to precipitate the condensation. A supercooled vapor will follow the isotherm along the doubly curved path shown in the liquid region of Fig. 4. A supercooled economy, like a supercooled gas, is highly unstable, amplifying fluctuations until the phase change occurs.

Figure 5 shows the trajectory of the U.S. economy in this phase plane over the past eight years. The economy, while not healthy in an overall sense, was recovering slowly in the early 1970s. But, the oil price rise in 1973-1974, as we have seen, qualitatively changed the economy's evolution, as the abrupt change in the trajectory shows. Very quickly the economy entered a metastable state, crossing "isotherms" whose slope is positive. In this metastable region of the phase plane, traditional economics is turned on its head! Conventional "cures" for inflation, for example, (like tightening credit to de-

TABLE 1
Energy output/8 hours

Man (manual labor).....	100 kwh
Horse	1,500 kwh
Windmill	12,000 kwh
Pearl St. station.....	270,000 kwh
(Edison's first electrical plant—1882)	
Hoover Dam generator.....	345,000,000 kwh
Typical nuclear plant.....	5,400,000,000 kwh



Top, the chart shows that nuclear technology is the most energy-efficient source yet developed. Below, the nuclear power installation at Pierrelatte-Tricastin, France.

TABLE 2
Energy use per hectare in rice production in various countries*

Country	Installed horse-power per hectare farm machines and draft animals only	Energy for farm operations (million Btu's per hectare)†	Energy for irrigation and nitrogen fertilizers manufacture (million Btu's per hectare)	Total energy input per hectare (million Btu's)	Rice yield kilograms per hectare	Energy intensity (million Btu's per ton of rice)
India	0.7	20	6.5	26.5	1,400	19
China	0.7	20	12	32	3,000	10.7
Taiwan	0.5	10	22	32	4,000	8
Japan	1.6	10	2.5	35	5,600	6.2
USA	1.5	7	2.5	32	5,100	6.3

* Total grain production depends not only on seed variety, soil quality, etc., but also on the mix of grains grown. Therefore, comparing a single grain gives a better comparison of the energy intensity of various farming methods.

† Energy used to perform various tillage, planting, and harvesting activities.

Source: Arjun Makhijani, *Energy and Agriculture in the Third World*, Cambridge, Mass: Ballinger Publisher Company, 1975, p. 17.

U.S. agricultural production is more energy-efficient overall because it uses intensive methods of mechanization and chemical inputs. As the table shows, increased irrigation and fertilizer energy per hectare and reduced manual labor lead to dramatic increases in rice production.

crease V and so, in normal times, shift a trajectory upwards in the phase plane) now have the opposite effect and increase V —and worsen inflation! The metastability is obvious in the wild gyrations of the money markets, commodity prices, etc. which amplify small jolts into large fluctuations and which can be damped only with the greatest difficulty. These phenomena occur in an almost identical way in a supercooled gas.

(Phenomena at the critical point are notorious for their ability to amplify fluctuations and for the large-scale coherent motion which spontaneously arises in them. Critical opalescence in a liquid-gas change is one example.)

The actual causal mechanism whose effects are evident in Fig. 5 is the approach of the free-energy ratio to and then below zero sometime between 1974 and 1975 (see Figs. 6 and 7). This change in the free-energy ratio created an accelerating devolution in the U.S. economy involving a net *decrease* in capital stocks, rising energy prices, decreasing growth in productivity, and decreasing capital- and energy-intensivity of production (see Tables 1 and 2).

Dynamic formulation of thermohydrodynamics

It is possible to recast the equations of the model, as described above, in light of these thermohydrodynamic considerations. The equations in their simplest form, only describe the *economic* side and treat only implicitly the underlying technical aspect of the economy. But, by

recognizing that the technical base shapes the economy in a geometric (not parametric) way, the two aspects of the economy can be treated together. The more complex economic space implied by these geometric considerations has, now, two “time-like” dimensions, calendar time (the t of our ordinary derivatives) and an energy intensity measure, called x , related to the level of technology employed in industrial production. Thus, we replace the propagator d/dt with

$$(\partial/\partial t) + u(\partial/\partial x).$$

where the partial derivatives model this multidimensional economic geometry, and

x = “energy intensity flux” of production, and
 u = rate of real investment in the most advanced technologies.

(In hydrodynamics, this set of partial derivatives is called the convective derivative. From this analogy, the name thermohydrodynamics was derived.)

Although the complete quantification of these variables has not been completed, there are several important consequences of this generalization of the model:

1) A quantification of the interplay between technical variables (t and x) and economic ones (u , S' , etc) is established, at least in principle.

2) These equations support shock wave solutions of exactly the sort required to describe phase changes. Since, if S' is negative, we know that u decreases faster

Glossary of equations

The differentials

$$dS'/dt = \alpha\delta S' - \alpha\gamma S' + \dot{\delta}V - \dot{\gamma}V,$$

$$dV/dt = \alpha S',$$

$$dC_1/dt = (1 - \alpha)\eta S', \text{ and}$$

$$dC_2/dt = (1 - \alpha)(1 - \eta)\epsilon S',$$

where

$$\alpha = \text{composition of reinvested capital} \\ = \Delta V/S'$$

$$\delta = \text{productivity} = S/V$$

$$\gamma = \text{nonproductive expenditure} \\ = d/V$$

$$\eta = \text{circulating to fixed capital ratio} \\ = \Delta C_1/(1 - \alpha)S'$$

$$\epsilon = \text{depreciation rate}$$

V = output required for replacement of productively employed workforce

C₁ = output required for replacement of productively consumed raw materials

C₂ = output required for replacement of productively employed plant and equipment

S = total output—(V + C₁ + C₂)

S' = that section of S invested in new productive capacity (i.e., next year's V, C₁, or C₂)

$$d = S - S'$$

Notice that this system of equations is a slight generalization of the previous Riemannian models, in which equations (1) and (2) have not been changed, and (3) and (4) subsume the old equation for C.

for smaller S', and, for positive S', u grows faster for larger S', the equation for S':

$$(\partial/\partial t)S' + u(\partial/\partial x)S' = \alpha(\delta - \gamma)S' + (\dot{\delta} - \dot{\gamma})V$$

has shock wave solutions, for both S' > 0 and S' < 0. When S' is positive, we have a characterization of the self-feeding process of industrialization. For S' negative, the depression collapse in Fig. 5 occurs.

3) The discontinuous solutions to this set of partial differential equations introduce in a rigorous way the nested manifold structure of Riemannian mathematics and physics. (See S. Bardwell, U. Parpart, "Economics Becomes a Science," *Fusion* magazine, June, 1979.)

4) These partial differential equations contain two natural time-scales, one economic (due to u) and one technical (due to x). Historically, the interplay between the shorter economic time scale, as seen in business cycles and the like, and the longer technical time scales (determined by the lag times for technological innovation) have had important consequences for economic development. The present seems well-characterized by such a conjunction of an "economic crisis" in the realm of capital investment intersecting a deep technological shift required over the next 10-20 years into nuclear (fission and fusion) technologies. Without the increasing energy intensities and hence productivities implied by these investments, the present crisis is insoluble in purely economic terms. This conjunction defines the real significance and magnitude of the present economic crisis.

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Countdown for war on the European battlefield

by Vivian Freyre Zoakos

"Some people regard U.S. attempts to whip up the atmosphere in the Persian Gulf region as an integral part of the general American plan to provoke a level of confrontation whereby economic self-sufficiency and political independence would become impossible for Europe. If Washington succeeds in causing a quarrel between West European countries and Iran, and consequently the entire Muslim world, ... then the main fuel supply channels will be closed and Western Europe will suffer a serious reverse in its economic development.

"The American ultimatum is to be examined at the conference of the Common Market foreign ministers. ... Whether or not they manage to find a reasonable way out at this meeting, one thing is clear: The policy of confrontation which Washington is trying to revive severely restricts West Europe's freedom of action in foreign policy and its economic independence."

This precise, if understated, assessment of the reasons behind the American provocation of the Iran crisis appeared in the April 16 issue of the Soviet party newspaper *Pravda*. The so-called Iran crisis, which the *Executive Intelligence Review* has documented to have been willfully provoked and manipulated by the United States, is in fact an instrument to force Western Europe to capitulate to American dictates in all areas of policy.

President Carter shed all attempts at disguising this fact in his statement of April 17, where he threatened

Europe with a war confrontation in Iran if Europe refused to actively endorse his policies. The American press and media, always abominable and misleading in their coverage of Europe, have attempted to portray this situation as one in which President Carter legitimately calls upon his allies for due support at a time in which American lives and national prestige are at stake.

This is a cynical lie. First fact: as *EIR* has documented together with other European sources, the ouster of the Shah, the subsequent ascent of Khomeini to power, and the seizure of the American hostages were all aspects of carefully planned Anglo-American strategy, in which Henry Kissinger, David Rockefeller, and Zbigniew Brzezinski in behalf of the Trilateral Commission played leading roles (see Middle East Report).

Second fact: Iran is a secondary issue. Ever since the United States and Great Britain forced West Germany, in particular, to capitulate to the proposal for the stationing of medium-range nuclear missiles on European soil at the NATO summit of late last year, the U.S. has been engaged in a deliberate strategy of forcing a superpower confrontation in which continental Europe would be forced to "choose sides."

The current issue of the London *Economist*, influential spokesman for the British elite allied to the Washington administration, laid out the true facts of the case in its lead editorial. "... (R)egard the unhappy diplomats as the equivalent of prisoners of war. A great power does not shape its strategy around the release of 50 POWs in a minor theatre of war. ... The containment of dangerous



Chancellor Helmut Schmidt (right) with U.S. Secretary of State Cyrus Vance, who toured Europe recently to let the continent's leaders know that the Carter administration is crazy enough to do anything if Europe doesn't conform to its wishes.

big Russia is the item that should be at the top of the western agenda. ... *Perhaps (Europe's) giving support to America on Iran will not, after all, become a way of dodging support for America on Afghanistan ... and thus encouraged, the west will apply itself with new heart to the business of containing Russia.*" (Emphasis added.)

To achieve this "solidarity" on the part of Europe, the United States has applied massive pressures up to and including threats of withdrawing the nuclear umbrella from the continent. The pressure has been so extreme that its nature has been leaked to the press. The London *Guardian* for example reported recently that Washington in armtwisting West Germany has "made threatening noises about Berlin."

The Franco-German war avoidance policy is now in the process of collapsing under these intense conditions of blackmail.

U.S. Defense Undersecretary Robert Komer was dispatched to Europe earlier this month as part of the ongoing U.S. pressure tactic, again exploiting the Iran crisis to speed the pace of war preparations in Western Europe. At an extraordinary session of the NATO Defense Planning Committee, Komer demanded the acceleration of the spring 1978 NATO decisions to increase national defense budgets by 3 percent, waving the "threats" posed by the Iran crisis and the Soviet invasion of Afghanistan to press his point. Going beyond the 1978 decisions, he also pressed on West Germany support for the Anglo-American (it is now official British defense policy) plan for an "evolving division of labor" within

NATO to allow the United States to carry out its outrageous confrontationist posture in the Indian Ocean and in the Persian Gulf, if need be.

Europe begins the slide into capitulation

Franco-German war avoidance for the past two years has been based on strengthening relations with the Soviets on the stable basis of increased economic, scientific and technical ties. Related to this, France and Germany developed plans for an international economic development policy based on cheap credits for the development of the Third World. The first phase of this program was shaped in last spring's creation of the European Monetary System. As authoritative West German spokesmen had stated at that time, including the Chancellor himself, the EMS was grounded on the earlier commitments and treaty relations established with the Soviets during President Leonid Brezhnev's visit to Bonn in May of 1978.

This war avoidance policy is now crumbling, as the U.S. forces Europe to choose sides once and for all in the context of the now established confrontation of the superpowers.

As a result, the meeting of the European Community foreign ministers of April 21-22, convened to respond to Carter's demand for action on Iran, presented a spectacle not seen throughout the past decade. The British, the allies of Washington in the attempt to destroy the Franco-German alliance, were allowed the role of "mediators" between the hardliners who wanted the adoption of full economic sanctions against Iran (reportedly West

Germany), and those others (France) who opposed sanctions altogether.

The proposal finally adopted was that put forward by British Foreign Minister Lord Carrington for a two-tier approach. In the first phase, the EC immediately reduces the size of its embassy personnel in Teheran, makes visas harder to come by for Iranian nationals, and ensures a complete arms embargo against Iran. The second phase, scheduled for adoption May 17, would be full scale sanctions if the hostages are still being held at that time.

Lest anyone be deceived that this was indeed a "compromise" with the more direct measures demanded by Carter, it should be noted that the Carrington plan had its origin at the Aachen, West Germany, meeting of the Bilderberg Society held just prior to the ministers' conference. An elite grouping of the leading Anglo-American ruling circle, with other European participation, the Bilderberg Society is one of the chief planning and policy-making bodies behind the drive to "break" continental Europe.

On the same day that President Carter was delivering his ultimatum to Europe, French Foreign Minister Jean François-Poncet was making a watershed speech before the National Assembly. The speech marked the first clear-cut sign of beginning European capitulation to the Anglo-American alliance.

François-Poncet began by denying American interference into Afghanistan before or after the Soviet invasion, putting instead complete blame on the Soviets for the collapse of detente. This formulation is a "first" for the Giscard government. Driving his point home, the foreign minister went on to cite Soviet "actions undertaken in Angola, in the Horn of Africa, in Yemen and Cambodia" as undermining peace.

The statement took on special significance because it was delivered less than two weeks before the scheduled visit to Paris of Soviet Foreign Minister Gromyko.

While he blamed "lack of continuity and firmness" on the part of Washington for feeding the climate of international tensions, François-Poncet went on to absolve the U.S. of all fault for the current crisis—a crisis which incidentally Chancellor Schmidt recently characterized as identical to 1914, immediately prior to the outbreak of World War I. Berating Moscow, he concluded, "Force always ends up by provoking a contrary force. The lack of trust it engenders is contagious."

François-Poncet still attempted to maintain some measure of policy independence for France, even as he said this. In the conclusion of his speech he stated that "the solidarity which united France and the U.S. in this crucial experience of the hostages cannot mean that France doesn't have to decide on her own, and at the opportune time, the measures it deems appropriate."

Indeed, the French did put up resistance at the foreign ministers meeting. However, the end result speaks for itself. As *Pravda* correctly noted, each step taken by the Europeans to try and appease Carter, heading off a presumed worse disaster thereby, only limits their subsequent independence and room for maneuver in foreign policy.

A further indication of the growing capitulation in continental Europe is the near-resolution of the standing conflict with Britain. As recently as two months ago, France and Germany were speaking of forcing Britain out of the European Community if necessary if London continued to demand special privileges within the EC. They had already "locked out" the British in important measure through the creation of the European Monetary System, which Britain could not join since it stood for an economic and foreign policy completely inimical to British plans.

The EC dispute revolved on British Prime Minister Margaret Thatcher's insistence on having £1 billion of British contributions to the EC budget returned to British coffers. The latest reports all indicate that a compromise is now being hastily worked out, awaiting only the upcoming EC summit meeting before being resolved, at least in broad policy outlines.

As the London *Guardian* gleefully noted April 21: "The Iran crisis is thought by some people to be likely to produce one unexpected bonus—a compromise agreement over the British EC budget complaint. ... It was inevitable that the two issues should become intertwined."

Documentation

Paris Match: 'American who's gone berserk'

The million-run French weekly Paris Match April 25 ran the following analysis of James Earl Carter's erratic behavior, entitled "Blaming Europe." The author is Arthur Conte, a noted French journalist who once headed the government's radio-and-TV agency. Conte is a close personal friend of President Giscard d'Estaing.

Everything is fraudulent. Perhaps never in history has the world seen such confusion, nor such deep and

unbelievable contradictions, nor such a complex game of poor strategies.

Fraudulent is the game of Jimmy Carter. He was presented as an all-out pacifist ... and we see him at present as a passionate maker of war, an "enraged sheep," even a systematic provocateur. ... Never has such a weak person been called upon to carry out such giant tasks. Here he goes, playing the worst sort of electoral games. ... Not only partners and allies come to doubt Carter, but even America herself. Never has a president given us such a murky and false image of his people. ... When we need a clear and determined America, we have instead an American policy that has never been so chaotic ... jerky ... with nervous fits. ... The eruption of an America going berserk.

American strategy in Iran ... is a fraud. Carter thought to do well as early as 1978 in accelerating the departure of the Shah. ... The fact is that it was he who initiated the process intended to put the young prince in surrounded with the mullahs. ... Such a religious solution should please this religious mind [Carter's], but we know what the ayatollahs did with that. ..."

The Kremlin: 'Carter's mask is thrown off'

The following are excerpts from "The Mask Is Thrown Off," by Vsevolod Ovchinnikov, appearing in Pravda, April 10.

Washington is not only going to aggravate its conflict with Teheran. Judging from everything, it is a risky bluff: blackmailing with the threat of direct military confrontation both Iran and those allies of the U.S. who depend on oil deliveries from the Persian Gulf region; putting Western Europe and Japan in the position of involuntary parties to a game intended to strengthen the shaken positions of American imperialism in the Near and Middle East. ...

As for the preparation of military interference, this is recalled by the presence of an American naval armada off the coast of Iran. It includes almost thirty pieces, including two aircraft carriers, and the Pentagon has just decided to dispatch still more forces to the Persian Gulf.

Even if this rattling of weapons is all bluff, it is still dangerous adventurism. Washington is waving a torch near a powder keg. ...

This reckless step by the U.S. threatens the security of all the states of the region and threatens general peace. This is how the world public evaluated it.

Schmidt: 'Neither power has a plan against war'

Following is a report on the speech which West German Chancellor Helmut Schmidt delivered to an SPD conference on security policy on April 20.

Chancellor Schmidt's remarks echoed earlier statements he has made both in public and private. He warned again about the war danger: "I am certain that both world powers and their leaderships do not want a war, but I am afraid they do not presently have a sufficient war-avoidance strategy at their disposal. In any case, it is not recognized by the world public. I fear that both world powers presently do not speak openly enough with each other about their fundamental aims."

Schmidt claimed that both sides were not able to place themselves in the position of their adversaries and allies. This was shown when Moscow intervened in Afghanistan and when Moscow refused to negotiate on middle-range weapons. He said that he did not want to enumerate the respective mistakes of the West.

Schmidt rejected the idea that NATO is in deep trouble: NATO has a crisis "as often as church fests." In NATO, the U.S.A. and Europe are dependent on each other. This should also be understood by the United States, said the Chancellor.

Schmidt stressed: "We will in any case and in all world political, albeit confused, situations not lose sight of the real interest of the German nation." But this German interest can only be pursued "with our partners in the alliance, especially with France, because of historical and moral reasons, and especially with the United States of America."

But solidarity, said Schmidt, should not be misunderstood as the "speechless acceptance" of "what others have already decided." Let nobody doubt we will go along with the sanctions, but we will only support measures which are reasonable in our view.

Schmidt then specified his military concept: "The Soviet Union said some weeks ago that NATO should suspend its decision [to deploy middle-range weapons in Europe], then they would be immediately ready to negotiate on the middle-range weapons. That is of course not possible ... It is desirable (since the West needs until well into the year 1983 before the middle-range weapons can be brought into combat position) that both sides do not bring their rockets into combat position and start immediately negotiating. This should be independent of the question of whether SALT is or is not ratified. ..."

The Times: 'The way to avert a new 1914'

Following are excerpts from an article in the April 20 Times of London contributed by Theo Sommer, editor in chief of the West German daily Die Zeit.

...No matter how erratic and incompetent they may think he [President Carter] is, they [Europe] know that in the last analysis they will have to go along with him. Whatever its current weaknesses may be, the U.S. is still the vital, indispensable and irreplaceable guarantor of Europe's survival. This explains the grim sentence recently ascribed to the French President Giscard d'Estaing: "When the chips are down, we will have to stand by the Americans—even if they are deadly wrong."

But now the time for quibbling is over. As the West German Chancellor Helmut Schmidt puts it: "Europe cannot possibly leave America in the lurch." ...

What it takes at this juncture is probably a diplomatic initiative far broader than the European proposal to neutralize Afghanistan....

* An initial step might consist of a set of unilateral declarations by the United States, Russia, Pakistan, India and China pledging recognition of Afghanistan's sovereignty, territorial integrity and nonalignment....

* The Kremlin should side squarely with the White House in the Teheran hostage crisis. In return, the Carter administration should renounce economic sanctions against Russia....

* Then, President Carter could resubmit the SALT II treaty to the U.S. Senate....

The Guardian: 'Europe has only ten days'

Following are excerpts from a London Guardian article of April 21, entitled "EEC has ten days to defuse crises."

The events of the next 10 days could have a more radical impact on United States/European Community relations and on relations between Britain and her Community partners than anything that has happened since the UK joined the Common Market. Tomorrow, the foreign ministers of the Nine meet in Luxembourg to try to hammer out a common line over Iran. Five days later, in the same city, the Community's heads of government

meet to try and solve the crisis over Britain's budget contributions to the EEC.

It was inevitable that the two issues should become intertwined....

The Iran crisis is thought by some people to be likely to produce one unexpected bonus—a compromise agreement over the British EEC budget complaint....

There appears to be three reasons for the more hawkish West German policy on Iran [as compared to that of France]. The first is that they have been made the prime target for unprecedented U.S. pressure. Even extending, according to some reports, to threatening noises about Berlin.

Secondly, Liberal Party ministers in the Bonn coalition (notably the FDP leader Hans-Dietrich Genscher) seem worried that any hesitation in giving 100 percent backing to Mr. Carter will be exploited by Franz-Josef Strauss and the right-wing Christian Democrats....

The Economist: 'facade of Atlantic solidarity'

Following are excerpts from the London Economist's editorial of April 19 entitled "Help! Who, us?"

... The glow of apparent solidarity may be misleading because Mr. Carter is using his limited store of alliance-rallying credibility against his less important target, Iran, instead of the more important one, Russia-in-Afghanistan....

They (Europe) ... have not yet understood how rough the 1980s are going to be, if Russia continues to stir the international waters....

The containment of dangerous big Russia is the item that should be at the top of the Western agenda. ... An expansionist new version of the Brezhnev doctrine of international politics ... claims that Russia has the right to use its armed forces not only to keep existing communist governments in power ... but also to help communists dig themselves into power. Since Russia is running short of oil, the implications of that are even more alarming for an EEC which gets 70 percent of its oil from the Gulf area, and a Japan which gets 67 percent, than for the United States. ...

But a Europe which still shelters under the American nuclear umbrella, still relies on 300,000 American troops ... and still expects America to ensure the flow of oil from the Gulf, has an obligation of interest as well as of gratitude to do more than grumble. It should show some solidarity with its protecting superpower.

West Germany



Helmut Schmidt

The Schmidt government— walking on a tightrope

by Susan Welsh

West German Chancellor Helmut Schmidt's decision this week to urge the European Economic Community (EEC)—and particularly his close ally France—to support the Carter administration's sanctions against Iran reflects the dangerous balancing act in which Bonn is engaged. Schmidt is torn between his complete rejection of President Carter's brinksmanship, which Schmidt believes may lead to World War III, and the fear of losing that "nuclear umbrella" which alliance with the United States provides.

"We know," said Chancellor Schmidt in a speech in Hamburg April 11, "that the kernel of our own security lies in the alliance with the United States. If anyone seriously doubts the expediency of one or another measure which is demanded from us, he must still realize that only support of this alliance can preserve the balance of power, which is the basis of peace and collaboration."

The London *Guardian* April 21 explained frankly how Schmidt was armtwisted to go along with Carter. "There appear to be three reasons for the more hawkish West German policy on Iran. The first is that they have been made the prime target for unprecedented U.S. pressure, even extending, according to some reports, to threatening noises about Berlin.

"Secondly, Liberal Party ministers in the Bonn coalition (notably the FDP leader, Hans-Dietrich Genscher) seem worried that any hesitation in giving 100 percent backing to Mr. Carter will be exploited by Franz-Josef Strauss and the right-wing Christian Democrats. Thirdly, ... the West Germans see Iran as less of a direct threat

to detente and cozy political and economic relations with Eastern Europe than Afghanistan."

World War III

The war danger of the present international situation is by no means lost on Chancellor Schmidt, whose country will be the main battleground of a thermonuclear war. Speaking at an electoral rally in Essen April 12, he compared the situation to that in 1914 on the eve of World War I. "There is no adequate war-avoidance strategy on either side," he warned. "Although then events took only a few months to develop to the outbreak of war, nobody should be confused today just because the process is slower."

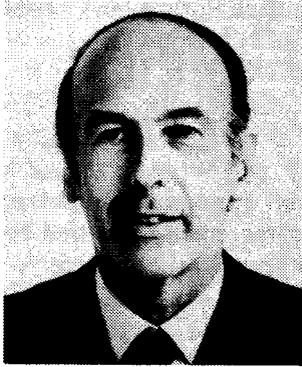
Schmidt's view of the nearness of war is widely shared throughout the West German political spectrum. Former Inspector General of the Army Gen. Baudissin warned in a radio interview April 23 against a U.S. military intervention in Iran, saying this would create a Cuban Missile Crisis in reverse. The United States might use nuclear weapons in order to "save face," he said—but the real problem facing the United States is not whether to lose face or not, but whether to lose its very existence.

Otto Wolff von Amerongen, the leading spokesman for West German industry, emphasized that sanctions against Iran should be no means be linked to sanctions against the Soviet Union. In an interview to the daily *Die Welt* April 16, he said that "if there is another general embargo against the Soviet Union, we'll be in a cold war again." He rejected any West German actions against Iran which were not backed up by the rest of the EEC, since "this would look too much like a Bonn-Washington axis."

Washington's "fifth column"

United States pressure against the Bonn government is matched from inside the country by a whole range of destabilization operations aimed to prevent Schmidt's re-election in October, and to maximally constrain his policies in the interim. The most significant of these operations, as the above-cited London *Guardian* article hinted, is that of depriving Schmidt of a viable coalition partner. His Social Democratic Party is not expected to get a majority of the popular vote, and relies on its coalition with the tiny Free Democratic Party (FDP) of Foreign Minister Genscher.

Schmidt's electoral opponent, Franz Josef Strauss, has lately been courting the FDP, which has backed Carter's policies nearly as much as Strauss himself. Genscher and his fellow FDP-member, Economics Minister Count Otto von Lambsdorff, broke cabinet discipline last week to demand that West Germany adhere to the U.S. boycott of Iran and of the Moscow Olympics, policies which Schmidt opposed.



Giscard d'Estaing

France

Giscard faces blackmail and domestic pressures

by Garance Phau

The French and Soviet foreign ministers, Jean Francois-Poncet and Andre Gromyko, held "frank and serious discussions" on the world situation in Paris April 23, according to the French national radio. French President Valery Giscard d'Estaing, who recently declined to meet with U.S. Secretary of State Cyrus Vance, will hold talks with Gromyko April 24 in view of the "gravity of the world situation."

Just prior to Gromyko's arrival, François-Poncet told a national television audience that "we have a few questions to ask of Mr. Gromyko." He delivered a sharp warning to the Soviet Union, saying that they are endangering detente by their continuing "massive military presence" in Afghanistan. He thus reiterated his lengthy remarks before the French National Assembly the week before.

Like their allies the Germans, the French have been under enormous pressure to "choose sides" given the imminent danger of world war due to the U.S. Carter administration's posture around the crisis in the Persian Gulf. The French are well aware that if they do not follow U.S. leadership in the Atlantic alliance, the Carter administration could undertake a maverick unilateral deployment into the Middle East that would make nuclear war with the Soviet Union a certainty. Therefore, although the French adhere to their own independent policy, their very desire for peace seems to force them to follow the U.S. in preparations for war. They are being blackmailed, to put it simply.

An article in the April 24 *Washington Post* delivered a snide comment on the "uncomfortable" position America has imposed on the French, who would like to "wiggle" out from in between the superpowers.

The French daily *Le Figaro* notes that although the Franco-Soviet talks now underway are characterized as "frank" on the French side, Soviet commentaries point to a positive outcome. The Soviet news agency *Novosti* calls the talks "very important and far reaching. The Brezhnev faction, says *Le Figaro*, seems open to a symbolic gesture around Afghanistan to ease tensions, but the Red Army has blocked any such move.

The French are proposing that Gromyko mediate in the freeing of U.S. hostages in Teheran, according to the newspaper of the Italian Communist Party, *Unita*, noting that although disagreements over Afghanistan characterize the Franco-Soviet discussion, agreement could be reached on a European-wide disarmament conference.

The Carter administration pressures on Giscard are compounded by growing internal pressures, featuring France's Zionist lobby. Day after day, editorials in the French press demand that France either cooperate with Washington, or take strong Cold War initiatives "independently." Typical is a *Le Figaro* editorial by Jacques Jacquet-Francillon: "In the face of the double challenge (Iran and Afghanistan)...the Free World appears disunited because unity would demand...at least a common virtue: courage." He said that Atlanticist François Mitterrand, Socialist leader, was right to attack Giscard's "do nothing" attitude toward the Iranian hostage crisis.

At this point, not only the Socialist Party, but the Gaullist RPR party—Giscard's coalition partner—and sections of his own UDF party are demanding docility in the face of Carter's behavior and demands.

In addition, a wave of terrorism has begun in France, much of it attributed to Israeli intelligence.

The most immediate threat to Giscard's government, however, is represented in an effort to "watergate" Prince Michel Poniatowski, a former Interior Minister who has functioned as an ambassador-at-large for the French president. Poniatowski, who is proven at least to have perjured himself in this affair, is accused of covering up the 1976 assassination of Assembly Deputy Jean de Broglie, a prominent politician and businessman. The French National Assembly, voted to reopen the case after hearing evidence that despite field reports that an assassination attempt would be made against de Broglie, the Interior Ministry under Poniatowski took no action.

There is, in fact, significant evidence that Poniatowski is far from innocent in the case. The entire affair, however, is reminiscent of the famous "Springer Affair" in West Germany in the early 1960s, when a scandal against the far-from-innocent defense minister Franz Joseph Strauss was used to topple Konrad Adenauer, whose government, like Giscard today, was seeking both detente with the Soviet Union and a Franco-German alliance independent of the British-U.S. axis.



Margaret Thatcher

Britain

World's worst economists: Can they dictate to Europe?

by Susan Johnson

London's current self-assigned role as the temperate foreign-policy mediator between the United States and continental Europe has considerable irony in light of the intemperate havoc the Thatcher government has wreaked on internal economic conditions in Great Britain over the past 12 months.

The results of Thatcher's budget-slashing austerity policies have been to treble inflation during her year in office to an officially acknowledged 20 percent. The Cambridge Economic Policy Group (CEPG) projects still higher inflation levels over the next five years, with a conservatively estimated *negative* growth in Gross Domestic Product.

What Thatcher's program, on top of earlier Labour government anti-industrial policies, has done to labor and its productivity is approximated by a recent London *Daily Mirror* estimate that fully one-fourth of the U.K.'s population is now living at poverty levels.

Sir Geoffrey Howe, in the Exchequer's recently issued economic White Paper, announced slashes in the meager programs which had kept conditions from further deterioration. And if unemployment follows anything like the CEPG projection of a near-quadrupling to 1985 from the current disastrous 1.3 million, the poverty level will become the norm.

Bent on consummating Britain's "postindustrial" status, the Thatcher government is also forcing strikes to speed the shutdown of basic industry. Following a crippling steel strike in February, the latest efforts target the automotive sector. Last week the management of the state-owned British Leyland Corporation unilaterally announced a 5 percent wage increase, without going through the formality of previously notifying the trade

unions of this effective cut in real wages. The result, predictably, was a strike by 18,000 BL workers.

The strike ended April 22. BL chairman Sir Michael Edwardes poised to follow through on his statements that the company's financial losses from the strike will force the shutdown of new facilities. As subsequently admitted by Roy Horrocks, managing director of BL's car division, the cuts had been planned before the strike.

The EMS option

British policymakers this week floated the possibility of London joining the European Monetary System, with the rationale that membership would help enforce budgetary discipline on the U.K.

The actual prospect is that EMS participation would enable Britain to insinuate herself into EMS decision-making and skew it toward austerity policies for the continent. The objective would be to begin to induce France and Germany to emulate Thatcher's Milton Friedman-drafted internal policies and to guide the EMS away from its original European Monetary Fund blueprint for redirecting overseas dollar liquidity into long-term low-interest development credits for the Southern Hemisphere.

In mooted British entry into the EMS—which had already been proposed as a pledge of London's good faith during the rancorous EC budget debates this year—the April 23 London *Times* editorial, "Time to End the Float," confines itself to arguments that joining the fixed-rate currency system is in Britain's interest. More precisely, in the interest of reinforcing Thatcher's policies in the face of their dislocating domestic effects. A fixed sterling parity, argues the *Times*, would put a ceiling on the pound appreciation's damage to British export competitiveness, and set a floor under "sudden falls in value, with consequently higher import prices," falls impelled by reaction to Britain's steaming inflation. Continued oil price rises will ensure investment inflows for Britain, adds the *Times*, so that high interest rates motivated by the desire to prevent capital drains can give way to sheer fiscal stringency—"cutting the size of the Public Sector Borrowing Requirement."

The bottom line for the EMS is the *Times's* demand that the prerequisite for its membership must be "genuine coordination within Europe and indeed the rest of the world of . . . monetary and fiscal policies."

This demand echoes Britain's insistence in 1978, when the EMS was first set up, that the industrialized world accept its anti-growth perspective. At that time, the demand was spurned by France and West Germany. Why they should now wish to uphold London's prerogative of dictating austerity to the rest of the world, is difficult to imagine.



Francesco Cossiga

Italy

A terrorist government attacks the Communists

by Vivian Freyre Zoakos

The second government of Italian Prime Minister Cossiga, which the *Executive Intelligence Review* has documented to be composed of drug pushers and other sa- traps of the Italian "black nobility," has placed at the top of its agenda the reversal of the highly successful anti-terrorist effort conducted under the previous Andreotti administration.

As he took his vows of office last week, Premier Cossiga was simultaneously airing his plan to destroy the currently independent Italian justice structure, substituting for it a new series of institutions under his direct control.

The Justice Department would be reorganized, together with the peculiar Italian institution of the magistracy which allows the latter to take turns both trying court cases as judges and actually conducting the investigations themselves. It was a section of the magistracy, allied to former Premier Andreotti, which last April began to score a series of coups in the jailing of terrorists and, more significantly, their political controllers.

The secret services would also be revamped, while the Prime Minister is requesting from Parliament the necessary powers to offer pardons to terrorists and Mafia members willing to turn states evidence.

Shortly thereafter, the Italian press was rocked with the "revelations" of a newly jailed terrorist purporting to be a member of the "strategic command" of the Red Brigades gang. The terrorist, Peci, had suddenly authored a 70-page confession denying the thesis of the magistrates that Italian terrorists were but a branch of an international phenomenon secretly controlled by otherwise "unimpeachable" individuals, many of them

presumed to be well known political figures.

The magistrates' evidence had in fact pointed directly at the Italian Socialist Party leadership as the controllers of Italian terrorists. The Socialists are now the new coalition partners in the Cossiga government.

The import of the Peci allegations have served the immediate purpose of veering attention away from the Socialists and their immediate collaborators such as the jailed Red Brigades leader, Antonio Negri. On April 24, the Italian press carried the announcement that Peci's confession had cleared Negri, who was otherwise being held for participation in the famous kidnapping and assassination of former Prime Minister Aldo Moro in May, 1978.

With suspicion being rapidly sidetracked away from the Socialists, the party's general secretary, Bettino Craxi, has chosen the moment to go onto the offensive against Andreotti's factional allies: the Italian Communist Party.

Over the course of the past week, Craxi gave two successive interviews to the Italian press hinting at Communist control of terrorists. Craxi argues that indeed there is a unified international command for international terrorism, telling his interviewer in *Corriere della Sera* that he, Craxi, has it in his power to solve the "terrorism riddle" not only for Italy, but for the rest of the world.

Craxi referred to a mysterious "grand old man" (*grosso vecchio*), promising that if his name were revealed it would be known to everyone. His only clue was that the *grosso vecchio* had been a top Partisan leader in the second world war Resistance movement, and very prominent 10 years ago.

It was the Italian Communist Party that led the Italian Resistance, and nearly all its famous leaders were Communists. The one important exception was the oil industrialist Enrico Mattei, who was murdered by British intelligence a dozen years ago.

Craxi's teasing interviews have now become the subject of wild speculation by the Italian press. Journalists are beginning to comb the newspapers of ten years ago to determine whom Craxi might mean.

This charade has already begun to accomplish the aims of the Cossiga administration. First, attention has been diverted from the real sources of terrorism, which if revealed would lead investigators straight to the new cabinet offices, including especially the Socialist coalition partners.

Secondly, the stage is being readied for an inevitable attempt to provoke an anti-communist hysteria. This is inevitable, because the Italian Communists are the still-powerful enemies of the Cossiga and Socialist terrorist political tendencies, and because it is an obvious requirement of the currently worsening cold war climate into which the U.S. has maneuvered the West.



Masayoshi Ohira

Japan

Lobbyists for Carter in Luxembourg

by Richard Katz

The nation of Japan surrendered to Washington's threat of Persian Gulf military action: it stopped all oil imports from Iran, embargoed all future export contracts to that country and dispatched Foreign Minister Saburo Okita, executive member of Trilateral Commission, to Luxembourg to act as a chief lobbyist for the U.S. position. In stark contrast to the traditional Japanese practice of quietly delaying until others have made a decision and then following, Okita shocked the assembled European ministers by taking the initiative. He exhorted Europe to support Carter by breaking trade ties with Iran, and he urged Europe to respond to the Afghan situation by firming up defense cooperation with the U.S. This, said Okita, was the only way to prevent U.S. military action in the Gulf, simply transmitting a threat issued from the State Department.

Prime Minister Masayoshi Ohira himself announced Japan's backdown from its previous reluctance to go along with Washington in an April 18 speech in which he declared that the meaning of Iran and Afghanistan is that "now is the time when it is necessary to strengthen our unity with the U.S." Contrary to previous prime ministers who premised Japan's security on its "peace diplomacy" as well as the U.S.-Japan Security Treaty, Ohira announced a new priority: a steady increase in Japan's defense capability—a demand Carter intends to press during Ohira's April 30 visit to the U.S.; effective and smooth cooperation with Washington on defense issues; and then Japan's contribution to peace.

Although Japan's breaking of oil trade with Iran ostensibly resulted from a price dispute, no one doubts that pressure from Washington lay behind Japan's

stance. In fact, the Japanese action earned it the first editorial praise for Japan from the *New York Times* in countless years, and State Department spokesman Hodding Carter stated that Japan was in the "forefront of U.S. allies" on the Iran issue.

Japan's lineup behind Carter followed weeks of hesitation and attempts at compromise in which most Washington observers thought it unlikely that Japan would follow Carter unless Europe also did. Many Japanese business and political leaders had urged that Japan try to avoid an open break with the U.S. while at the same time holding on to Iranian oil. Then, in the words of one political adviser, "the administration decided to play hardball." As an administration official put it: "We told them there was really very little choice. If the Iranians cut them off, they didn't have to worry because there was a glut of oil and we might help them out a bit. But if Japan and Europe didn't go along with us, then we were going to take military action and that would cut off Iranian oil. It would be better for them if they supported us and didn't get the oil than if they didn't support us and still didn't get the oil." The official then added that whatever Japan may believe about U.S. promises to replace lost Iranian oil, the Carter administration has made absolutely no guarantees about that.

As soon as the U.S. put on serious pressure, those who had opposed Ohira's policy of supporting Carter backed down. A consensus developed to give Ohira a free rein on Iran and defense issues, including increased defense spending. Japan has made such backdowns before. What shocked the Europeans this time was that Japan acted so forthrightly in pressuring *them* to back down.

Japan to "conserve" oil?

"Conservation, not finding alternate sources, will be the foremost response to the loss of Iranian oil," said a Japanese government official. Considering the stiff conservation already undertaken by Japan—oil imports have still not recovered peak 1973 levels—the loss of 12 percent of its supply is a sharp blow.

Japan cannot expect the U.S. government to instruct American oil firms to make up the deficit—U.S. administration officials labelled "wishful thinking." The government emphasis on further conservation indicates that Japan is seriously considering applying for the oil-sharing provisions of the International Energy Agency, which requires the recipient to absorb the first 7 percent loss.

What did Brandt tell Castañeda?

The Mexican official's trip raises a question of whether Mexico can be duped into supporting the zero-growth program of a certain agent of the World Bank.

Mexican Foreign Minister Jorge Castañeda made a hushed visit to Austria this week to meet with Willy Brandt and Austrian Chancellor Bruno Kreisky. The public notice of the trip was buried in the back pages of the Mexican newspapers and no official statements from the trip ever appeared.

Yet the agenda included the recent Brandt Commission report for restructuring the world economy, particularly North-South relations, as a central item. Observers are wondering if Castañeda's flirting with the Commission and the United Nations/World Bank "one-world mafia" behind it may not in fact be linked to the insistent rumors that Castañeda may be dumped from his post.

The issue in a nutshell is this: Will Mexico join the Brandt Commission drive for channeling the Third World's demands for a "new world economic order" back into the IMF/World Bank structure? The Brandt idea is to peddle a "restructuring" which achieves the same result as the current IMF conditionality policies, but under more politically saleable rubrics of "appropriate technologies" and "self-sufficiency."

While Castañeda was abroad, there was a related meeting April 17-19 of a "Latin American Forum" at Luis Echeverria's Third World Center—the CEESTEM—located here in Mexico City. This was the first of a series of meetings

organized jointly by CEESTEM and the United Nations Institute of Training and Research (UNITAR), who are coordinating international discussions on the theme of how to create a "New Regional Economic Order" Castañeda has worked closely with UNITAR director Ervin Laszlo on this project, as has CEESTEM director Jorge Alberto Lozoya.

From the first the Brandt Commission pitch was unabashed. Gabriel Valdez, a top U.N. official and a protégé of Chilean Brandt Commissioner Eduardo Frei, did the honors with an impassioned plea for help for Jamaica now that Jamaica has repudiated negotiations with the IMF. The "Jamaica case" is the tactical focus for all of Brandt Commission organizing in Latin America at this time.

Valdez then placed this Brandt-styled appeal in the context of greater regional self-sufficiency, fully bearing out the forum's subtitle of "a new regional economic order" as the replacement for "new world order." Faced with world economic disarray, Latin America must "form a bloc" to overcome the problems of "19th century nationalisms," he declared. As the foundation for this regionalization, he proposed the immediate establishment of supranational Latin American institutions in the areas of energy and food.

Several participants, including representatives of the Mexican

government, noted the striking similarity of such an approach with the "Western Hemisphere Strategic Reserve" program masterminded by Hudson Institute-trained energy consultant Robert Panero.

Less well known is the striking similarity of the CEESTEM meeting to the goals of a just-formed secretive hemispheric task force of the Aspen Institute, the Club of Rome's sister organization in the U.S. The Aspen target: restructuring of the entirety of hemispheric-wide institutions for full supranational government.

Why the Brandt Commission focus on Mexico? Because no hemispheric or regional plan can work without Mexico's involvement. In the past, Mexico has led opposition to regional or Third World "self-sufficiency," in all guises, from the North American Common Market idea to Venezuela's efforts to set up twotiered oil pricing with special cut-rates for Third World clients. Many people here still remember that when Castañeda implied Mexican support for two-tiered pricing one morning early last November, he was forced to call a special press conference that same afternoon to say it was all an error due to poor copyediting of the speech.

But excitement here in Mexico is now building for President Lopez Portillo's mid-May tour of Europe when his talks with France's Giscard and West Germany's Schmidt will reinforce the traditional Mexican insistence on full sovereignty and global solutions.

Significantly, neither Jorge Alberto Lozoya nor Gabriel Valdez, at the CEESTEM Forum, had a single word to say on the President's upcoming trip.

Carter's deal with the Brotherhood

The President might have secured the hostages' release long ago by certain warnings to the Muslim Brotherhood. But again, Carter is treating these outlaws as an ally.

Totally unknown to the American public, the U.S. State Department this month initiated the first official contacts with the Muslim Brotherhood secret society. According to reports from Europe and Iran, this action is a prelude to a major relaunching of Zbigniew Brzezinski's "Islamic card" in the context of a confrontation with the Soviet Union over Iran and the Persian Gulf.

Teheran Radio reported an official communique of "the Muslim Brotherhood international organization" issued April 20 in Cairo, Egypt, which began: "In the name of God, the merciful, the compassionate. The U.S. State Department has asked the political attache in the U.S. embassy in Cairo to contact the Muslim Brotherhood organization in Egypt so that it will exert efforts to secure the release of the hostages in the U.S. embassy in Teheran."

The meeting, it said, was arranged through the good offices of Egyptian President Sadat. "The Egyptian presidential office seconded the request through the Egyptian Foreign Ministry. Accordingly, U.S. Attache Lorenz visited Mr. Umar Talmasani, with the Egyptian authorities' approval, and informed him of the U.S. State Department's request." Following the meeting, Talmasani—who is the *rais* of the Muslim Brotherhood in Egypt and publishes *Al-Dawa* weekly—met with the com-

mand of the Muslim Brotherhood to discuss the U.S. request and issued a statement expressing full readiness to serve as interlocutor between Washington and Teheran. Talmasani also endorsed the actions of the student terrorists holding the U.S. embassy and declared, "The Islamic Revolution in Iran is the revolution of all Islamic movements in the world, irrespective of their political and religious denominations and organizations."

For many years, as *EIR* has documented, the U.S. and British intelligence services have maintained close and even controlling relations with the constituent parts of the Islamic underground, especially the branches of the Muslim Brotherhood. Now that formerly covert relationship is surfacing publicly. U.S. officials have indicated that Brzezinski intends to use Muslim fundamentalism as the political skeleton to build a grandiose military alliance stretching from North Africa and Turkey into the Indian subcontinent. It is to this end that the Carter administration, with President Sadat's eager assistance, is now opening official links with the Muslim Brotherhood.

Sadat, beginning in the late 1930's, was a leading member of the Muslim Brotherhood in Egypt and served as its liaison between the Palace and the armed forces during World War II and afterwards.

Several meetings held in Eu-

rope, one openly and at least one covertly, indicate the international scope of the renewed activation of the "Islamic card."

According to Arab sources, earlier this month the leaders of the Muslim Brotherhood in eight Arab countries gathered together in an unnamed European capital. Present were members from Egypt, Syria, Iraq, Jordan, Saudi Arabia, Morocco, Sudan, and Tunisia. The subject of the meeting was coordination of strategy toward Syria, where the terrorist attacks of the Muslim Brotherhood, backed by logistical support from Egypt, Israel, and the Lebanese Falangists, has the regime of Syrian President Assad in a virtual state of siege.

More openly, from April 12-15 in London the entire world leadership of the Muslim fundamentalists met under the umbrella of the Islamic Council of Europe, led by Salam Azzam, an Egyptian ex-official of the Brotherhood.

The implications of this activation for Iran may be seen in the near civil war conditions there. Suddenly dropping its neutralist pose, the Islamic Revolutionary Council declared war on moderates and leftists, and many were killed and thousands injured in assaults by Muslim Brotherhood gangs against opposition forces. President Bani-Sadr triumphantly described it as a "cultural revolution" and endorsed the Council's call for a purge of the universities.

From early reports, it looks like an Iranian version of the "night of the long knives."

With the entry of Sadat and the Egyptian brotherhood on the scene, the question is: Is Brzezinski really trying to bring Iran into Camp David?

International Intelligence

Europe

More NATO Pressures on Europe

New indications are beginning to emerge of the military pressure the U.S. has been putting on Western Europe, particularly since the crucial visit to the continent earlier this month of U.S. Defense Undersecretary Robert Komer. Komer, attending a NATO meeting at that time, had issued a series of ultimata. Included were: (1) a 3 percent increase in European defense spending, (2) free use of civilian aircraft to ferry American soldiers into "hot spots," (3) a greater "division of labor" within NATO, meaning that Europe would have to replace the reinforcement troops the U.S. has assigned the European Allied Command, but which are now needed for a "rapid intervention force" for the "hot spots."

The U.S. has now issued a new order: European foreign ministers are to accompany defense ministers to the scheduled May 14 meeting of the NATO Defense Planning Committee. The London *Times* reports that Washington is doing this to ensure added political weight to the decisions taken at the meeting, and force the Komer proposals into implementation phase.

Middle East

METO militarization pact takes shape

According to Israeli sources, the Carter administration is in the process of hammering out a U.S.-Israel mutual defense pact to carry out military operations in

the Persian Gulf. The details of such a pact were discussed at length by President Carter and Israeli Prime Minister Begin earlier this month in Washington. Ezer Weizman, Begin's defense minister, is currently in the U.S. to fine-tune the plan.

During their talks, both Carter and Begin put forth ideas concerning the signing of a defense pact, including the use of Israeli airports, seaports, and bases by the United States; the stationing of U.S. Air Force units in Israel; and the holding of joint military maneuvers. Within the framework of the bilateral defense pact, the U.S. will provide "funds and know-how" for Israel's security, and will also assist Israel in jet-fighter construction.

The consolidation of a U.S.-Israel mutual defense arrangement is at the heart of the Camp David "peace" process. It constitutes one of the main pillars of a larger military axis, comprised of Egypt, several Persian Gulf states and Iran, along with Israel and the U.S. This axis is referred to by insiders as the Middle East Treaty Organization (METO).

Last week, in an interview with CBS, Begin stated that the U.S. is "making a mistake" if it does not station military forces in the Middle East to curb "Soviet expansionism." He pledged Israel's complete cooperation in setting up such a strike force.

Egypt is also bending over backwards to accommodate the METO militarization plans. The U.S. has already begun to use Egyptian air force bases for AWACS flights and U.S. Air Force operations in the Persian Gulf. Egyptian President Sadat, like Begin, has offered Egypt's services in a U.S. military move in the Gulf. To work out the details of this cooperation, Defense Secretary Harold Brown will soon visit Cairo.

The METO development is also encompassing the Gulf states. According to the Kuwaiti news agency KUNA, the emirate of Dubai has granted the U.S.

naval facilities there, a decision that has triggered a political crisis inside the United Arab Emirates, of which Dubai is a part. UAE President Sheikh Zayed denounced Dubai's decision and told the governor of the emirate, Sheikh Bashid, that he disapproves. KUNA says the decision was made after secret talks between the UAE ambassador to London and Hamilton Jordan, President Carter's chief of staff. The ambassador in question, Mahdi al-Tajir, is a leader of the Muslim Brotherhood, the organization behind Ayatollah Khomeini in Iran, which would also be pulled into METO after a resolution of the hostage crisis, which the Paris-based *Al-Mustaqbal* magazine calls a "fabricated crisis" and a "farce."

U.S.S.R.

Gromyko keeps the door open

Soviet Foreign Minister Gromyko spent the day yesterday in talks with French President Giscard and Foreign Minister Jean François-Poncet in Paris. The talks were later characterized as "frank and serious." There was no joint statement afterward; the French did not issue any statement.

Gromyko later told the press that the Soviet Union will do everything possible to maintain detente, but that it is not the only factor in the situation. He said the Soviets hope that France will support their efforts. He then left for Bonn for talks with Helmut Schmidt.

Indicative of the fact that the Soviets are not yet ready to close the door on Europe is a Tass wire on the European foreign ministers meeting this week which capitulated to the Carter administration pressures. Tass stated that the Europeans adopted the measures they

did against Iran "under U.S. pressure," and concluded: "The (European) Nine nevertheless unequivocally disassociated themselves from Washington's threats to resort to armed force against Iran."

How long the Soviet Union can keep the door open to governments who now appear to be backing down, step by step, to U.S. pressures is the principal question. The Soviets have declared the Carter administration "incalculable" and "crazy." So have many European leaders. However, the Europeans continue to prove themselves susceptible to pressures and blackmail from "incalculable" and "crazy" people and so, at a certain point, for all intents and purposes, the Europeans will have to be considered just as "incalculable" from the Kremlin's standpoint.

Asia

Arms export debate erupts in Japan

A major debate has erupted within the Japanese business community on the subject of arms exports abroad. Currently banned by law, the arms export debate reflects the ever-growing pressure on Japan to expand its defense role in Asia.

Shiego Nagano, the president of the Chamber of Commerce and former chairman of Nippon Steel, has become the most prominent advocate of a new arms export policy. He is proposing that Japan export arms to the Middle East countries in particular, in exchange for oil. Moreover, he says, such a policy will help the Japanese economy because "production of weapons is the prime mover of technological progress."

Another leading proponent of arms exports is Hosai Hyuga, a leader of the business community in Osaka. Specifi-

cally, he is calling for Japan to expand its defense spending from .9 percent of the gross national product to 1.9 percent.

The idea of arms exports, though existent for many years in Japan, has gained special significance following the meeting of the Trilateral Commission in London last month. At that time, top Anglo-American policy planner George Ball proposed that Japan construct two naval aircraft carriers and "lease" them to China. This, Ball said, would be a major Japanese contribution to the western defense alliance. Another Trilateral Commission member, former Japanese foreign minister Kiichi Miyazawa, has endorsed this proposal.

This defense debate could reach a head late this month when Prime Minister Masayoshi Ohira travels to Washington. The Carter Administration is expected to put heavy pressure on Tokyo at that time, pushing the Japanese to cooperate with Communist China in an alliance against the Soviet Union.

Ohira, who is notorious for following Washington policy to the letter, has already indicated he will not disappoint the Carter officials on this issue. Last week he told foreign correspondents in Tokyo that "a steady increase" in Japan's defense preparedness is one of the pillars of the country's security policy. This was a dramatic change in Japanese policy, which traditionally emphasizes promotion of economic diplomacy as the key to the nation's security.

Since the Carter administration policy toward U.S. allies violates the national interest of those allies, including Japan, Carter must use blackmail. In this regard, he might tell Ohira that some Mexican oil will be allowed to flow their way, provided Ohira cooperates on sanctions policies toward Iran and the Soviet Union, and in other related matters like the military alliance with Peking. Such blackmail may carry weight, in as much as Japan is already suffering oil cut-off by Iran.

Briefly

● A RAND CORP. analyst complained, "I really don't know what to say about that. Lately, most of my predictions about Mexico have been wrong." He had been asked to comment on whether Carter had bribed Japanese Prime Minister Ohira to get Japan to support him on Iran with promised U.S. toleration of a Japanese agreement for Mexican oil.

● EEC COUNTRIES were angry over Japan's actions at the important summit of EEC foreign ministers this week, top sources in Europe report. At the meeting, the Japanese delegation functioned as a virtual arm of the State Department, publicly prodding the Europeans to support American sanctions against Teheran. "After this," one top source said, "there is no chance for any trust between Europe and Japan—at least as long as Ohira remains prime minister."

● "BRITISH Intransigence blocked the negotiations," according to *Le Figaro* in an article on the EEC foreign ministers meeting concerned with British contributions to the community budget. What's more, French President Giscard has again affirmed that unless prior agreement is reached at this pre-meeting, there will be no resolution at the April 28 summit.

● A MILITARY operation by the Carter administration to free the Iran hostages—leaving 8 GIs dead, and aborted when equipment failed—has produced shock in Western Europe. Carter had implicitly promised no maverick military action if Europe agreed to aid in his sanctions policy against Iran. A leading West German oil executive noted that Europe's capitulation last week at the EEC foreign ministers' meeting to Carter's strongarm tactics was the most foolish thing that Europe could have done.

The 1981 defense budget: A buildup or a bluff ?

by Konstantin George and Susan Welsh

The Defense Department's Fiscal Year 1981 budget request—widely heralded as the beginning of an “arms buildup” to bolster the administration's “Carter Doctrine”—embodies a defense program that will increase the likelihood of general thermonuclear war, while leaving the United States in no condition to fight that war.

The budget concentrates resources on developing a “first strike” capability against Soviet military targets, while allowing the continued erosion of war-fighting capabilities in depth. The Carter administration does not anticipate fighting a general war with the Soviet Union, but seeks to develop the “credible threat” of a knock-out capability, as a bluff, in order to prevent the Soviet Union from responding to American political and military actions by launching all-out war.

The budget seeks to upgrade U. S. ability to project power into Third World “hot spots” through the Rapid Deployment Force and related programs. The underlying idea is the geopolitical encirclement of the Soviet Union, fomenting an “arc of crisis” around its borders, draining Soviet economic resources.

U.S. defense policy today is the correlative of the New York Council on Foreign Relations' (CFR) aim to destroy the “neo-mercantilist” forces of the Soviet Union, United States, Europe and Japan, which for centuries have threatened to institute a global order based on economic progress and scientific technological development. To counter this, the CFR proposes an era

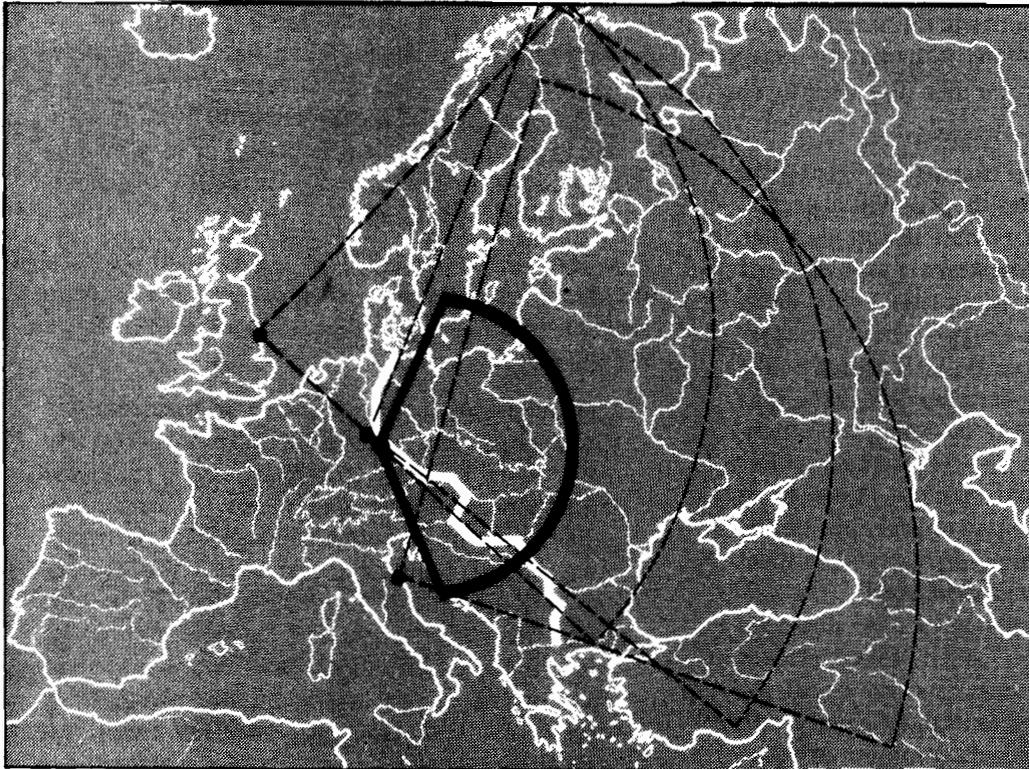
of “controlled disintegration,” in which the super-powers, fearful of launching an “unthinkable” thermonuclear war, will instead wage local “proxy” wars in the Third World, in a Malthusian struggle over dwindling natural resources.

The budget report by Defense Secretary Harold Brown demands that U.S. allies in Europe and Japan revamp their economies for increased military production in support of these policy aims, thereby cutting off channels of cooperation between these countries and the Soviet Union.

The budget statement also advocates an alliance with the People's Republic of China, to further the encirclement of the Soviet Union. It endorses the transfer to China of civilian technology “which may have potential military application.”

This is not a budget aimed to develop an in-depth war-fighting capability, since Brown declares this to be “futile.” Nor is U.S. doctrine intended to prevent nuclear war, since the Pentagon has recently issued a study suggesting first use of tactical nuclear weapons in the Persian Gulf in case of a Soviet invasion of Iran (*New York Times*, Feb. 2, 1980).

Instead the doctrine aims to limit the Soviet Union's response to such a scenario, forcing Moscow to accept the possibility of “limited nuclear war” and “selective” strategic exchanges between the United States and U.S.S.R. against counterforce targets on each other's



The heavy arc shows the range of U.S. Pershing I missiles currently deployed in West Germany. The lighter arcs show the range of new medium-range missiles—within four-minute flight-time of Soviet targets—to be stationed in Britain, West Germany and Italy according to NATO's decision of Dec. 12, 1979.

home territory. Brown readily admits (with some perplexity) that this all goes completely against Soviet military doctrine, which stresses war-winning capability even in general thermonuclear war.

But Brown and his co-thinkers hope that by developing U.S. counterforce capabilities—through improved accuracy of nuclear missiles, hardening of silos, and such programs as the MX missile and the deployment of the cruise and Pershing II medium-range missiles in Western Europe—the U.S. can use the threat of a disabling first strike to force Soviet adherence to American counterforce doctrines.

Take for example the MX missile for which the budget proposes \$1.6 billion for research and development towards full (operating) capability in 1989. The missile will have a higher accuracy and higher pay load than existing Air Force rockets. The 200 missiles will be housed in an underground trench, with mobile launchers shuttling the missiles in and out of 4,600 concrete shelters to be built in Utah and Nevada. The MX presumes either a surprise U.S. first strike (since if launched in retaliation it would hit empty Soviet silos), or Soviet acceptance of “restraint” and counterforce doctrine, in which case large quantities of both sides’ missiles would remain in their silos after the first launch.

Secretary Brown, in testimony on the MX before the House Appropriations Subcommittee March 25, explained: “We need to be able to attack their military

forces. If we want to be able to attack them promptly, we need a highly accurate intercontinental ballistic missile.” Asked why the Carter administration could not rely on a strategy of launching existing missiles after detecting a Soviet strike, Brown replied that that “would be going to war by computer—I think that would be a mistake.”

Will It Work?”

Washington’s strategy is based on a notion of “controlled escalation,” from conventional fighting to tactical nuclear to selected strategic strikes, with general thermonuclear war the “unthinkable” last phase which is never expected to occur. Since this concept was first worked out by Henry Kissinger, James Schlesinger, Robert McNamara and others during the 1950s and 1960s, it has been viewed as a thermonuclear “chicken game” for securing political and military gains short of all-out war.

It will not work, since Soviet doctrine absolutely excludes it. The Soviets believe that if nuclear war comes, it will be because the vital strategic interests of one or both superpowers are at stake to a degree which makes “compromise” impossible. Neither power would give up those vital interests before all the military means at its disposal had been launched against the enemy; therefore, “escalating” warfare is impossible. Soviet doctrine draws no distinction between “tactical” and “strategic” weapons, viewing them both as components in the arsenal of

total war. "Counterforce" is rejected as an "imperialist invention," since Soviet missiles will hit American industrial and population centers along with military targets.

These facts are admitted and then dismissed by Harold Brown:

Soviet leaders acknowledge that nuclear war would be destructive beyond even the Russian historical experience of the horrors of war. But at the same time some things Soviet spokesmen say—and, of even more concern to us, some things they do in their military preparation—suggest they take more seriously than we have done, at least in our public discourse, the possibility that a nuclear war might actually be fought. In their discussion of that prospect, there are suggestions also that if a nuclear war occurred, the time-honored military objectives of national survival and dominant military position at the end of the fighting would govern and so must shape military preparations beforehand.

Beyond the murky teachings of these doctrinal presentations, the Soviet leaders make evident through their programs their concerns about the failure of deterrence as well as its maintenance, and their rejection of such concepts as minimum deterrence and assured destruction as all-purpose strategic theories. Those concerns are understandable; some of us share them ourselves. What must trouble us, however, is the heavy emphasis in Soviet military doctrine on the acquisition of war-winning capabilities, and the coincidence (in one sense or another of that word) between their programs and what have been alleged as the requirements of a

deliberate war-winning strategy....

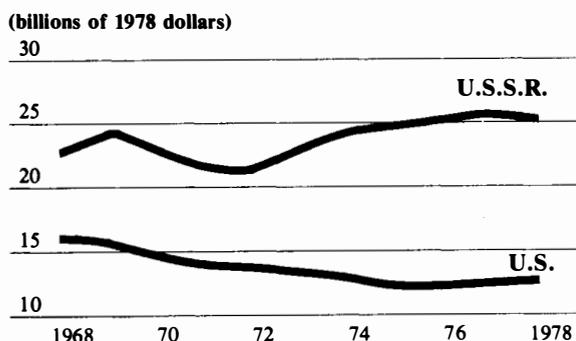
These leaders should know by now, as we learned some years ago, that a war-winning strategy—even with high levels of expenditures—has no serious prospect of success either in limiting damage in an all-out nuclear exchange or in providing meaningful military superiority. (DOD *Annual Report FY1981*, pp. 82-83)

A study produced in 1977 by the Council on Foreign Relations, titled *Nuclear Weapons and World Politics*, attempts to grapple with the same issue that CFR-member Brown addresses:

Understandably, given a history of recurrent foreign invasion and devastation under both tsars and commissars, there is a strong inclination within the Russian character to prepare for the worst. Regardless of any hypothetical expansionist intent, many (most?) Soviet planners believe that the Soviet Union ought to be prepared to win the next war, whatever its scope. The logical appeal of the Western concept of mutual deterrence has not and will not thoroughly overcome this war-fighting instinct (David C. Gompert, "Strategic Deterioration: Prospects, Dimensions, and Responses in a Fourth Nuclear Regime")

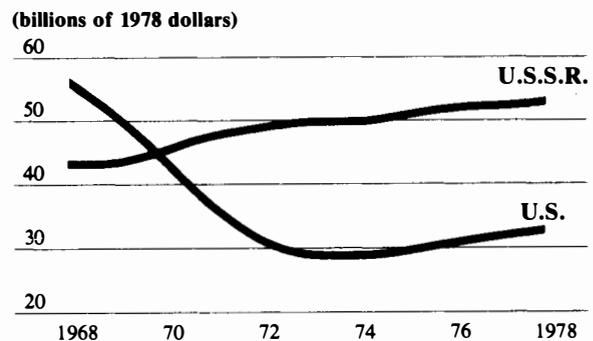
The CFR study concludes that the economic difficulties faced by the Soviet Union will be a major constraint on the country's ability to significantly outpace the United States. Therefore an essential "equilibrium" will allegedly be maintained at least through the 1980s, since neither side is likely to develop effective defenses against

Strategic forces
U.S. outlays vs. estimated dollar cost of Soviet activities



Source: Department of Defense Annual Report, FY1981.

General Purpose forces
U.S. outlays vs. estimated dollar cost of Soviet activities



Source: Department of Defense Annual Report, FY1981.

ballistic missiles, of the sort necessary to seriously upset parity. This underestimation of Soviet technological advance is discussed in an accompanying article.

Global projection of power

Despite the Carter administration's stated commitment to an arms build-up, the current state of the U.S. economy prohibits simultaneously beefing up the strategic deterrent, creating the new Rapid Deployment Force, and strengthening the general purpose forces to the extent required to actually wage war. Under the CFR's "controlled disintegration" of the world economy, not even outright Nazi-style austerity conditions could gouge sufficient funds out of the shrinking civilian economy to make such an all-around build-up possible. Therefore the administration is focusing on the global projection of power, while in-depth war-fighting capabilities continue to erode.

The most striking new item in the proposed defense budget is the funding of the first phase of a \$10 billion Rapid Deployment Force program, to make available 100,000 men for rapid dispatch outside the NATO area.

Brown threatens our "cavalier" NATO allies that they must gear up their economies for military production to fill the gap in general-purpose forces which the U.S. is unable to fill. The Carter administration is demanding that West Germany increase its role in patrolling the North Atlantic and other areas within the NATO sphere, so that British and American forces can be deployed "east of Suez." According to Brown:

Because we will bear by far the greatest load in strategic, theater nuclear, naval, and rapid deployment forces, our allies will have to carry the bulk of the burden of needed increases in their own regions. They may well have to increase their efforts by more than the three percent a year pledged by NATO.... (p. 24)

The Soviets continue to produce new tanks, guns, and aircraft at two or three times the rate of the United States. They are investing perhaps twice as much in defense research and development. We must count on our NATO allies to make up many of these differences. (p. 48)

If Washington succeeds in forcing such an arms build-up in Western Europe, it will destroy what remains of Europe's detente relationship with the Soviet Union and its allies. Moscow has hitherto looked to Paris and Bonn as representing virtually the only viable war-avoidance tendencies in the West. If those tendencies are destroyed, the Soviet Union will conclude that general war has become inevitable. It will then seek the best opportunity to launch a first strike; the United States will probably be completely destroyed.

The provisions

What the new spending is for

Defense Secretary Harold Brown's budget statement for Fiscal Year 1981 released on Jan. 29 claims that the budget effects a 4.6 percent real rise in defense spending over the previous year. Two and a half months later, adjusted inflation figures have already reduced the real military "build-up" to something closer to 1 percent.

In a remarkable sleight-of-hand, the administration early this month cut \$82 million from the FY 1980 budget, so as to be able to fulfill the obligation, undertaken by all NATO member countries, of showing a 3 percent real annual increase in defense spending from FY 1980 to FY 1981.

What effect will the new budget have on U.S. combat readiness? We review each of the key program categories, assessing the impact of major new programs.

Research and Development. Despite the recommendation of the Joint Chiefs of Staff that "special emphasis be placed on revolutionary technological opportunities to harness the innovative spirit and capabilities of the American people," (*Military Posture for FY 1981*) R&D has for years been the "poor man" of the DOD budget. During the 1965-75 period, the overall research budget fell by nearly 50 percent in constant dollars. Since then it has risen by about 1 percent per year.

Meanwhile the Soviet Union spends at least twice as much as the U.S. military on research and development, and has more than double the number of scientists and engineers involved in research activity.

There is one technology which could revolutionize the military balance in much the same way the nuclear-tipped ICBM did 25 years ago, and that is the directed energy beam weapon. This device, if perfected, would be capable of directing intense energy (either laser energy or subatomic particles) in a beam travelling at or near the speed of light, capable of destroying an incoming missile or plane. Fired either from a satellite or from an

earth-based battery, the beam weapon is the first possibility for a true defense against the ICBM.

Numerous informed sources have reported in recent months that the Soviet Union is within 12 to 18 months of *deploying* such a weapon which, the DOD believes, would not be needed before the 1990s, if it could be developed at all. Harold Brown in his FY 1981 report is hardly optimistic:

Although the Soviets may be investigating the application of high-energy lasers and even charged particle beams to ABM defenses, severe technical obstacles remain in the way of converting this technology into a weapon system that would have any practical capability against ballistic missiles. We still have no evidence, moreover, that the Soviets have devised a way, even conceptually, to eliminate these obstacles.

Surely the Soviet testing earlier this month of a "killer satellite," following a two-year moratorium on launching antisatellite weapons, would give the Pentagon grounds for a reassessment. The Soviets also began quietly removing the ABM system around the city of Moscow this month, with no indication of what they intend to replace it with.

The strategic triad

Secretary Brown believes that U.S. intercontinental ballistic missiles are becoming increasingly vulnerable due to the improved reliability and accuracy of Soviet missiles. This means that "for planning purposes... we must assume that the ICBM leg of our TRIAD could be destroyed within a very short time as one result of a Soviet surprise attack."

But from this vantage point of "deterrence" rather than war-fighting, this is not seen as a great problem for the present:

Still, even if the Soviets were able, in a surprise attack in the 1980s, to eliminate most of our ICBMs, all our non-alert bombers, and all our ballistic missile submarines in port, we would still be able to launch several thousand warheads at targets in the Soviet Union in retaliation. ... the United States, in these hypothetical circumstances, could lose an important leg of the TRIAD and a significant but not crippling number of valuable warheads. ... We can live temporarily with the vulnerability of one TRIAD leg, so long as the other two are in good working order. (pp. 85-89)

As we shall see however, two of the three legs of the TRIAD—ICBMs, and strategic bombers—are becoming increasingly vulnerable.

Intercontinental ballistic missiles (ICBMs). The ICBM force currently consists of 450 Minuteman II, 550 Minuteman III, and 54 Titan II missiles. While generally accurate and effective, these weapons are aging while Soviet ICBM capabilities improve. The DOD sees this problem as the most serious deficiency facing U.S. strategic nuclear forces today, and has budgeted \$1.6 billion to develop the MX mobile ICBM. The first test launch is scheduled for Jan. 1983, and the MX will not be fully operable until 1989 at the earliest.

Submarine-launched ballistic missiles (SLBMs). Eight new Trident missile submarines have been authorized through FY 1980, and the FY 1981 budget requests \$1.2 billion funding for a ninth sub, along with \$899.8 million for 72 Trident I missiles. Ten obsolete Polaris submarines, built during the late 1950s and early 1960s, will be retired this year and next. This will mean an immediate net decrease of SLBMs from 656 to 544, for an interim period.

Strategic bombers/cruise missiles. The B-52 bomber, now in its third decade of service, is still the major element in the strategic bomber force and is expected to remain so into the next century. In case of a first strike by the Soviets, about 2/3 of the B-52s would be wiped out immediately on the ground, since Strategic Air Command bases are one military target the Soviet Union would definitely hit.

The B-52s are not effective for a U.S. first strike, since they cannot effectively penetrate Soviet air defenses, and were in fact vulnerable to now-obsolete surface-to-air missiles in the Vietnam War. To solve this problem, the DOD is fitting the bombers with cruise missiles that fly below Soviet radar. These would not be effective against a Soviet first strike, since 2/3 of the B-52 forces is on the ground at SAC bases in the United States at any given time, and therefore out of cruise range of Soviet territory.

As a study by the Council on Foreign Relations reports, the cruise is not yet well suited as a first-strike weapon, since it is too slow. "But as cruise missiles become faster, their value as a first-strike weapon will increase, and so widespread deployments of them could ultimately prove destabilizing..." (*Nuclear Weapons and World Politics*, 1977, p. 258).

Contrary to claims that the cruise is highly accurate, the results of their flight tests are very poor. Of the 14 missiles tested to date, fully half were unsuccessful. The targeting system is not effective over flat terrain. And if the Soviets develop an effective look-down radar capability, the cruise will quickly lose its present supposed advantages.

Department of Defense Financial Summary

(millions of FY1981 dollars)

Summary by budget title	Fiscal year						
	1964	1968	1972	1976	1979	1980	1981
Military personnel	39,468	51,897	45,600	37,128	33,520	33,291	33,371
Retired pay	3,681	5,442	7,661	10,696	12,030	12,939	13,736
Operation & maintenance	35,547	54,470	41,847	42,118	44,297	46,877	49,210
Procurement	45,685	58,573	36,496	30,850	36,701	38,655	40,546
Research, development, testing & evaluation	21,441	18,884	14,940	13,899	14,488	14,598	16,543
Special foreign currency program	2,970	---	24	4	16	11	3
Military construction	---	4,048	2,486	3,135	2,952	2,749	3,258
Family housing & homeowners asst. program	1,830	1,591	1,653	2,417	1,844	1,643	2,005
Revolving & management funds				197	118		68
TOTAL—direct program (Total obligational authority)	150,622	194,909	150,709	139,863	145,968	150,490	158,739
Summary by program							
Strategic forces	25,496	18,583	14,098	10,465	9,850	11,750	12,031
General Purpose forces	49,908	79,396	50,367	48,157	55,449	56,104	58,009
Intelligence & communication	13,315	14,409	10,738	9,741	9,427	9,846	10,668
Airlift & sealift	3,162	4,542	2,195	1,843	2,039	2,169	2,288
Guard & reserve forces	5,375	5,660	6,412	7,837	8,144	7,919	8,331
Research & development	14,695	11,102	11,340	12,636	12,651	12,714	14,025
Central supply and maintenance	14,100	21,801	17,066	14,191	15,011	15,634	16,731
Training, medical, other general pers. activity	21,040	31,593	29,940	31,444	30,111	30,996	32,704
Administration and assoc. activ.	3,280	3,221	3,325	3,162	2,746	2,775	2,975
Support of other nations	246	4,651	5,224	385	539	594	977
TOTAL—direct program (Total obligational authority)	150,622	194,909	150,709	139,863	145,968	150,490	158,739

Source: Adapted from Department of Defense Annual Report, FY1981. Totals are not exact due to rounding.

Theater nuclear forces

NATO's decision in Dec. 1979 to produce and deploy the Pershing II and ground-launched cruise missile in Western Europe is the most significant new development in this area. For the first time, U.S. nuclear missiles in Europe will be in range of the Soviet Union. The FY 1981 budget requests \$146 million for development of the Pershing II and \$187.8 million for the cruise.

The deployment of tactical nuclear missiles within 4 minutes' flight time of Soviet targets is a provocation comparable to the installation of Soviet missiles in Cuba—a threat neither superpower can accept.

How will the Soviets respond? A Latin American communist with high connections in Moscow declared after a recent visit there that "the day those missiles are installed in West Germany will be the day that World War III begins." West German political analyst Theo

Sommer, editor of the weekly *Die Zeit*, described in his paper early this month his conversations with Soviet officials in Moscow. The Soviets are determined to catch up, he said. "How they will do this is only hinted at. Perhaps through deploying their own cruise missiles on Soviet ships off the American coast ('Then we would hear the screams'). One probability is the stationing of Soviet medium-range missiles or short-range systems like the SS-21, 22 and 23 on the border of the German Democratic Republic and Czechoslovakia. ('Then you would only have one minute's warning and we would still have four.')

Tactical air force

The F-15 fighter is the Air Force's lead system for air-to-air combat, and the budget requests \$869.7 million for

30 planes. Additional requests include: \$804 million for 24 Navy F-14s, \$1.9 billion for 180 F-16s, and \$1.75 billion for 48 F-18s. While these production rates are low compared to recent years, the cutbacks in production have raised unit costs so that the price tag remains about the same.

Rep. Jack Edwards (R-Ala.) reports that the tactical air forces today are in a "truly appalling" condition. At the First Tactical Fighter Wing at Langley Air Force Base, only about 30 percent of the F-15s are capable of performing their missions. The remainder are grounded for parts and maintenance.

The Navy's West Coast fighter base at Miramar, California possesses about 110 F-14s. A typical squadron has about 15 F-14s assigned, of which only 5 are classified as mission capable. But because of last minute failures, only 2 to 3 of those would actually be launched. At some fighter bases spare parts are so hard to get that maintenance personnel spend their own money to purchase parts at local electronic supply outlets.

While the Air Force declares that its single most important priority is to improve the ability of its attack aircraft to operate in night/all weather conditions, this is not in fact being done, and only a small number of F-4s and F-111s have this capability.

Ground Forces

As we indicate in the accompanying article, the main portion of the anticipated conventional arms buildup is expected to come from our NATO allies. U.S. efforts concentrate on the XM-1 main battle tank which began to enter the inventory in FY 1980. The FY 1981 budget requests \$1.6 billion to buy 569 of the new tanks. The Army plans to procure 30 per month initially, expanding to 90 per month by FY 1986, until it reaches the initial

operational objective of 7,058 units. The new budget also requests \$538.4 million for 400 armored troop carriers and \$101.1 million for 12,000 TOW anti-tank missiles.

Conventional wisdom in the Pentagon has held that the acknowledged Soviet numerical superiority in armor was more than compensated for by American qualitative superiority. This is no longer the case; in fact top U.S. defense R and D officials now acknowledge that Soviet tanks are far superior. The new Soviet T-80 tank, which is expected to reach the field later this year, will probably be invulnerable to existing U.S. anti-tank weapons. It will be the best tank in the world.

By contrast, the XM-1 has glaring defects. The General Accounting Office produced a study early this year reporting that in Feb. 1979 tests the tank achieved a mean of only 145 miles between failures, as against the 272-mile goal. Problems have developed with the tank's turbine engine and fuel control. The hydraulic system of the gun turret sometimes failed to function properly, so that the crew could not swing the gun into firing position.

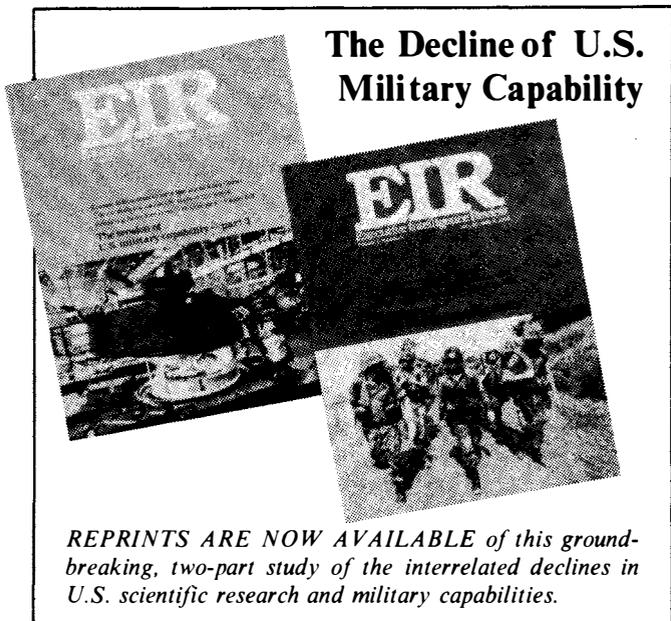
Just as significant from the Pentagon's standpoint is that the heavy XM-1 is difficult to transport to remote areas of the world as part of the Rapid Deployment Force concept. Large transport planes are being built for this purpose, but the Army is also considering a shift to light, mobile 16-ton tanks for airlift to the Third World.

Navy

Despite the need for increased naval power to support the Rapid Deployment Force, there will be a decrease in shipbuilding under the proposed FY 1981 budget. The \$6.1 billion shipbuilding request is \$564 million less than last year's program. The number of combatants will drop by 39 ships to a strength of 392. The United States currently maintains only 12 aircraft carriers, compared to 24 in 1964. The Congress may add on additional funds, as the House Armed Services Committee voted March 26 to recommend a \$2.2 billion addition to the shipbuilding program.

Gen. David Jones, chairman of the Joint Chiefs of Staff, reports that projected naval aircraft procurements are less than half those required even to sustain current force levels. There is a serious lack of skilled personnel, particularly pilots, and the Navy went so far as to take the oiler ship Canisteo out of operation temporarily due to lack of skilled crewmen. "We are approaching the point where we may have no realistic alternative but to consider standing down some ships and aviation units," Admiral Thomas Hayward, chief of naval operations, told the Congress recently.

The fleet is plagued by problems of repair and maintenance, so that only one-fourth of the Navy is deployed overseas at any given time. This means that in the event of war, approximately 3/4 of the Navy would be destroyed in port, without ever firing a shot.



The Decline of U.S. Military Capability

REPRINTS ARE NOW AVAILABLE of this groundbreaking, two-part study of the interrelated declines in U.S. scientific research and military capabilities.

Why has Benjamin Civiletti been releasing all the terrorists ?

by Robert Greenberg

The one man in the federal government who is responsible for the investigation and prosecution of terrorists in the United States has, since his tenure in office, personally interceded to secure for nearly 20 such individuals their pardon from arrest and imprisonment.

That man is Attorney General Benjamin Civiletti who as the most recent issue of the *Investigative Leads* newsletter reports, should be held personally responsible if any of the following individuals are involved in any way in terrorist or political violence.

Lolita Lebron, Irvin Torres, and Rafeal Cancel Miranda: Imprisoned for an armed attack on the U.S. House of Representatives in 1950.

Oscar Collazo: Imprisoned for an assassination attempt against President Truman in 1954.

Imari Obadele, Addis Adabba, and Karim Njabafundi: Members of the Republic of New Africa, imprisoned in 1971 on charges ranging from possession of stolen weapons to murder.

Bernadine Dohrn, Jeffrey Jones, Kathy Boudin, Carl Jones, John Jacobs, Michael Louis Speigel, Jeffrey David Powell, and Mark Rudd: Members of the Weather Underground, wanted on charges relating to the 1968 "Days of Rage" in Chicago. Previously considered armed and dangerous.

Karleton Armstrong and David Fine: Members of the Madison, Wisconsin-based New Years Gang imprisoned for the bombing of the Army Math Research Building which resulted in the murder of a student.

Eldridge Cleaver: Member of Black Panther Party faction close to the Weatherunderground. Wanted on murder charges.

The Case of the Puerto Rican 4

Regarding the September pardoning of the Puerto Rican 4, John Spanish, the parole attorney for the U.S. Department of Justice, told *Investigative Leads* reporters that the release, which had been sought for many years, only occurred because of the personal interest of Benjamin Civiletti. Following an appeal for executive clemency or commutation of sentence filed by Attorney Emilio Soller and a request for appeal by Congressman Garcia's (D-N.Y.) office, Spanish initiated a review bringing in the FBI and other agencies. The review, according to Spanish, led to their release—despite the fact that government officials involved knew that this would tend to remoralize certain terrorist groupings.

A subsequent interview with Rep. Garcia confirmed that the release was effected through the efforts of himself, Balthasa Corradea Del Rio (resident commissioner for Puerto Rico) and Benjamin Civiletti. According to Garcia:

I worked closely with Civiletti. It was a question of justice and humanitarianism. Civiletti visited my office twice on the question of their release. Bell was Attorney General at the time. He was okay. But Civiletti was the brains behind it. He took a personal interest in the case. You know I know Oscar Collazo. We've been friends for years. He lived in Apartment 9, I lived in Apartment 10.

Other individuals who worked with Garcia and Civiletti included Representative Ben Gillman (D-N.Y.) and Ron Dellums (D-Cal.), and Luis Ferre of the New Progressive Party in Puerto Rico. Rep. Dellums is a member of the Committee to Free the Puerto Rican Nationalists which claimed credit for the release. The Committee was also comprised of Michael Deutch (the FALN's attorney), and such public terrorist supporters as MIT linguist Noam Chomsky, terrorist attorneys William Kunstler and Arthur Kinoy, and Jane Fonda.

The White House press statement issued after the pardon of the Puerto Rican 4 stated in part:

It is the consensus of law enforcement officials consulted that commutation would be appropriate and would pose little substantial risk of the defendants' engaging in further criminal activities or becoming the rallying point for terrorist groups.

Terrorists rally

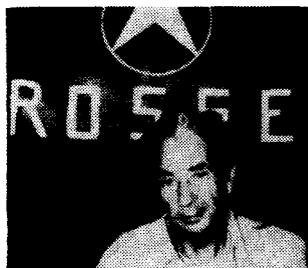
The four pardoned terrorists in fact in no way repented for their actions and stated after their release that they would not have acted differently if they had the opportunity to do it all over again. The immediate effect of the four's release was to heighten the level of terrorist activity by the FALN and other "proindependence" terrorist organizations. After their "triumphant" return to Puerto Rico, a series of attacks on U.S. military personnel commenced resulting in several deaths. This was followed by an organizing tour of the four in the United States, which took them to New York, Chicago, Milwaukee and other major U.S. cities. This coincided with brazen actions taken by the FALN, including the invasions of Carter and Bush campaign headquarters and threats to Carter campaign leaders. Many of the people who were involved in the campaigns to free the Puerto Rican 4, such as the editor of Milwaukee's *La Guardia*, Ernesto Chacon (who was the local sponsor of their Milwaukee tour), are also public FALN supporters and sponsors. Two weeks prior to the attacks on the Carter

and Bush offices, Chacon organized a support rally for the FALN which drew 500 solid supporters.

The leniency of the Justice Department concerning terrorists and their supporters also extends into the area of drug abuse. As deputy attorney general under Griffin Bell, Civiletti declared his support for the decriminalization of marijuana. He made his statement after a medical review showed that some kinds of "soft" marijuana are not harmful, a view shown to be false by numerous medical experts. After becoming Attorney General, Civiletti supported the Carter administration's deemphasis on the war against drugs and supporting instead the focus on targeting so-called white-collar crime.

Similar to the policy that was pursued under the Kennedy Justice Department, the "war on white collar crime" meant an emphasis on investigations of trade unions, local urban political machines and the law enforcement community. In August of 1979, Attorney General Civiletti announced that civil rights investigations relating to law enforcement agencies' treatment of minorities would be a major focus of the Department. Shortly thereafter, in what was to be a precedent setting action, the Justice Department filed suit against Philadelphia Mayor Rizzo and the Police Department for their "brutal" treatment of members of the MOVE cult. A year earlier, MOVE was involved in a shootout with police, resulting in the killing of one officer. The case was thrown out of court; the Justice Department is preparing an appeal.

Italy's Aldo Moro, as photographed by Red Brigades murderers.



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A new gasoline technology

As lighter crudes are becoming scarcer, Ashland has come up with a process that needs only heavy crude to produce as much as 20 percent more gasoline.

A major U.S. oil company has just announced what it claims is a breakthrough in refining technology which could substantially increase production of gasoline from so-called heavy crude.

Announcing the new refining technology earlier this month, Ashland Oil Co. Chairman Orin E. Atkins stated that "this promises to be one of the more revolutionary steps in the refinery process and can help cut imports."

Ashland's new process, developed by engineer George Meyers after several years of testing, allows heavy crude to be refined into gasoline for the first time. Until now, the less desirable heavier grade crudes could only be converted into asphalt for road paving or burned by electric utilities because of the difficulties in removing the high-sulfur and trace metals contents.

The Ashland process converts the sulfur into easily disposable hydrogen sulfide gas while binding traces of nickel and vanadium to a special catalyst developed by the Ashland team.

Although problems of scale will be an estimated three or more years away—by which time a major plant can be developed using the new process—Ashland calculates that the process could allow us to produce the same amount of gasoline with 20 percent less crude oil input. Since April 1978, Ashland has been running a 200 barrel

per day experimental pilot plant and plans to build a medium-sized 40,000 bpd facility to augment its 180,000 bpd refinery in Catlettsburg, Kentucky. That addition will add an estimated 25,000 bpd of gasoline to the plant's current 90,000 bpd yield.

On an industry-wide average, refiners get only 50 percent gasoline per barrel of crude. Union Oil of California, a leader in new refining technologies, is known to average 60 percent utilization. Ashland now claims 70 percent by its new process.

Before the Ashland process, heavy crude was considered less desirable because of its limited application. The new process "makes everybody's heavy oil more valuable" Atkins stated. Canada, Venezuela and regions of the United States such as California and parts of the Rocky Mountains contain substantial deposits of heavy crude. Heavy crudes have tended to be more costly to refine compared with lighter oils because of higher sand content, higher viscosity and related problems.

Commenting on the Ashland process, an *EIR* subscriber with extensive experience in the refining industry said "this is very exciting if it works," cautioning that actual costs for the process may run as high as that for coal conversion technologies. Carter administration decontrol of heavy oil prices opened greater interest in the en-

ergy source, leading some industry sources to call it the "new frontier for both industrialized areas of the world and for developing nations."

One reason for the greater interest in obtaining more profitable gasoline from heavy crudes by companies such as Ashland is the fact that in recent years the asphalt market has become less profitable in the U.S. One refinery expert noted a major reason: Despite escalation of gasoline prices of more than 100 percent in the last 12 months, federal and state funds for highway construction and repair have actually declined. Traditionally, since the 1959 Defense Highway Act created a fund to be financed by gasoline taxes, the tax is a set number of cents per gallon, not a percentage of pump price. Thus, while prices have risen, tax yields have actually declined because of a 6-7 percent decline in overall gasoline consumption. A major shift to gasoline production, because of the more lucrative \$40 per barrel prices compared to current prices of \$11.50 per barrel for high sulfur feedstock sold as heavy fuel oil, could cause asphalt shortages in several years, the expert noted.

Pricing geometries aside, the Ashland process, if economical, could herald a major new resource development as lighter crudes become more scarce.

While the Ashland process described above indicates that technological innovations can open entire new areas of resource recovery, there is a current problem on which I will be commenting at length in an upcoming column. The problem? We are swimming in a surplus of crude oil and its refined products.

Senate throws sop to housing industry

By a vote of 89 to 5, the Senate adopted amendments and extension to the housing assistance program which is designed to provide a government subsidy for up to 100,000 mortgages over the next few months if President Carter orders the program into action. The housing industry, currently in a state of collapse under the Federal Reserve Board's tight money regime, lobbied heavily for the provisions, despite the widespread recognition that the program can barely dent the problems facing the industry.

Under the plan, the government would subsidize monthly mortgage payments for qualifying units, effectively reducing the interest rate from 14 to 11 percent. A graduated payment schedule would reduce the effective rate in the first year to about 8 percent. Loans would be limited to homes costing \$60,000 or 80 percent of the average new house sales price for the area; the program would end next March.

The program can only go into action by presidential order, and Carter is not proposing its use at this time. Companion legislation is pending in the House and passage is expected.

In a related reaction to the Federal Reserve Board's tight credit policies, the Senate Banking Committee postponed for another week the vote on the nomination of Lyle Gramley to the Federal Reserve's board of directors. Gramley is being opposed by a growing coalition of small business, farm and housing groups who charge that

neither he nor anyone currently on the board are "sensitive" to the problems of small business and agriculture, especially during the current credit crunch. Led by Iowa Senator John Culver, opposition to Gramley (who is currently on the President's Counsel of Economic Advisors) has picked up substantial support, and the postponement of the vote is read as further indication that Gramley does not have the support needed to secure his confirmation.

Jackson predicts certain oil cutoff

In an April 23 hearing on "The Geopolitics of Energy," Senate Energy Committee chairman Henry Jackson declared that "internal turmoil throughout the Mideast, fueled by Soviet intrigue makes oil supply interruptions in the next decade a virtual certainty." Jackson based his remarks on a series of classified background briefings given to the energy committee over the course of the past three months which have reviewed "the geopolitics of energy" in specified regions and countries such as Latin America, the East bloc, Africa and individual OPEC countries. Jackson indicated that the briefings pointed to a leveling off, and perhaps a reduction, of world energy supplies during the 1980s for both physical reasons of supply and because of international instabilities.

Jackson's predictions were echoed by CIA Director Stansfield Turner who also expressed nervousness about Soviet political interventions in traditional American

spheres of influence. "It is also likely that the Soviets will be increasingly active in the diplomatic area in the Middle East, holding out as a carrot the glimmer of a stable political atmosphere if the Gulf states become more cooperative on oil and political matters. Moscow already is strongly making the point that Mideast oil is not the exclusive preserve of the west, most recently in a suggestion to 'include the security of oil routes' in a Soviet-proposed European conference on energy."

As Turner knows, but did not say, it is the Carter administration's threat to cut off European oil by destabilizing the Persian Gulf, up to and including maverick American military action against Iran, that is the sole basis for American policy influence on Europe. The Soviet proposal on oil route security would remove U.S. power to blackmail its nominal allies. Turner calls this part of the "Soviet threat."

Capitol Hill observers noted that Jackson's prediction of a "virtually certain" cutoff of Mideast oil, coupled with Turner's veiled threats against Europe for considering dialogues with the Arab states and the Soviet Union over the stability of the Gulf, has an ominous ring to it. Jackson's predictions have the potential to become marching orders since the staff director of the Senate Energy Committee is intimate with the Aspen Institute—the institution in the U.S. credited by informed analysts with having instigated the fall of the Shah.

Jackson announced that future hearings will examine U.S. political

responses to the "geopolitical" issues raised during the series of 10 hearings.

Senator questions rationality of Carter blockade threat

In a speech on the floor of the Senate on April 21, Kansas Republican Senator Nancy Kassebaum questioned whether the administration had adequately assessed the "dangerously severe" consequences of a blockade of Iran. Kassebaum began her speech with a definition of a zealot: "one who, having lost sight of his objective, redoubles his effort," and questioned whether the President's threat of a blockade of Iran was such a reaction ... She analyzed the possible outcomes of such a blockade.

"First of all, there is the potential of execution of the hostages, a tragedy which would almost certainly lead to full-scale war between the United States and Iran.

"A blockade would totally disrupt world oil markets thereby aggravating the already fragile health of the industrialized world. Would the U.S. be able to meet domestic or allied petroleum needs?

"Would the Saudi Arabian monarchy be able to withstand another anti-American Islamic reaction ...?

"... Is the Pentagon being asked to commit itself to another no-strategy, no win confrontation?"

Kassebaum concluded, "We do owe ourselves the benefit of a rational policy, military if necessary,

designed with something more in mind that assuaging popular frustration."

CIA charter proposal whittled down

A proposal to establish a comprehensive charter for the Central Intelligence Agency will apparently be scrapped by its author because of administration opposition and replaced by legislation advocating sweeping changes. Earlier this year, Senator Walter Huddleston (D-Kan.) introduced his comprehensive CIA charter with what he thought was administration backing after years of negotiation.

Huddleston and Senate Intelligence Committee chairman Birch Bayh (D-Ind.) were stunned during the first day of hearings, when CIA Director Stansfield Turner announced that what had been perceived as minor, negotiable differences were in fact major points of contention. The center of the dispute was over the issue of "prior notification" of congressional overseers of covert actions. The administration and the CIA want to instead notify Congress after the fact and only with such information as they deem necessary. In fact, Turner expressed dissatisfaction with even the current state of limited, prior notification existing between the agency and the Congress. Capitol Hill observers speculated that the administration's intransigence on the issue of "prior notification" was a ploy to kill the charter concept.

In the face of this opposition, Huddleston is apparently prepared to prune his bill down to certain

bare reforms which need legislative remedy, including a cutback in the Freedom of Information Act, criminal penalties for disclosing the names of CIA operatives, and reporting fewer Congressional Committees about covert actions. Whether the issue of "prior" or "timely" notification will be resolved or simply left at the tenuous status quo remains to be seen.

Congressional agency studies 'psychic' defense

The difficulty many Congressmen encounter in attempting to understand military realities and the nature of national security—as well as the nature of many other things—became more understandable recently, when Dr. William Whitsun, head of the Congressional Research Service's Division of Military Strategy and Defense, granted *EIR* an interview. Dr. Whitsun, a founder of a thinktank based in California called Novus (for "New Age," that of Aquarius), outlined extensive research his government agency was conducting into an "alternative defense strategy" based on "a new technology—psychic warfare." He did not mean "psychological warfare," he meant "psychic warfare."

Whitsun insisted that an Israeli specialist in extra-sensory perception (ESP) had already managed to destroy dottings on a magnetic tape with his powerful "mind waves."

In the future, mind-control might be used to wipe out instructions on magnetic tape for guided missiles—if not the missiles themselves, thinks Whitsun.

National News

FEMA evacuation of Staten Island aborted by police

One year after conducting the nuclear hoax at Three Mile Island, the Federal Emergency Management Agency (FEMA) with the aid of a lying press, attempted to use a fire at the Chemical Control Corporation warehouse in Elizabeth, N.J. as a pretext for an evacuation of nearby Staten Island. The suspicious fire, conveniently occurring the night before environmentalists massed at the U.N. for "Earth Day," created a "huge, toxic, acid cloud" which posed a health emergency to the residents of Staten Island, according to the *New York Post* and various federal agencies. This proved to be a lie. The cloud was not toxic.

According to a New York Police Department official who asked not to be identified, John Vernon, the deputy chief of hazardous substances of the Federal Environmental Protection Agency—which is advised by FEMA—as well as New Jersey Police Superintendent Clinton Pagano, contacted the New York Police Department's Division of Civil Preparedness shortly after the fire started and strongly called for Staten Island's evacuation.

The official noted: "These FEPA and FEMA people are gloomy. They always take the worst case. I don't know whether it's conscious or unconscious. These people are the drum beaters. They think that during a crisis, it's their moment. My reaction was that these people are fantasizing. More people would have been killed in an evacuation than by any cloud." Correctly reporting that FEPA and FEMA are made up of the same people who talk about the supposed danger of nuclear terrorism, the official stressed that without the hostility and suspicion toward FEMA and FEPA held by members of the NYPD, an evacuation attempt might have begun.

Although the fire began at 11:00 PM

on April 21, and federal officials reached New York authorities at 2:00 AM, urging evacuation, no attempt was made to investigate the toxicity of the chemicals burning until 11:00 AM the next day.

While the *New York Post* reported that the radioactive chemical nitroglycerine, PCB was being released into the air, a simple chemical analysis of the smoke cloud revealed no toxic constituents.

At best, the smoke could be classified as "irritating." Nevertheless Mayor Koch, fresh from crisis management of the transit strike, had already set up emergency headquarters on Staten Island with the Police Commissioner.

Reagan advisors named

Reagan campaign issues coordinator Richard V. Allen has released a list of 67 individuals who have been recruited to the candidate's defense and foreign policy boards. The list is heavily weighted to Georgetown University, the American Enterprise Institute, the Stanford Research Institute, and the Hoover Institution—all heavily dominated by right-wing Jesuit networks. Among the more prominent members are: former NATO Ambassador Robert Strauss Hupe, Dr. W. Glenn Campbell, director, Hoover Institution on War, Revolution and Peace; Dr. Fred Ikle, former director of the U.S. Arms Control and Disarmament Agency; and Gen. Daniel Graham, former head of the Defense Intelligence Agency, now a leading Zionist lobby activist.

In interviews yesterday, two of Reagan's new advisors, Irving Kristol of the American Enterprise Institute and Peter Duignan of Hoover, both agreed that the key element of a Reagan foreign policy would be a willingness to involve the U.S. in military confrontations with the Soviet Union. Said Kristol: "The first thing Reagan should do is to get the rapid deployment troop force off the ground and running. The next thing he should do is to look for an excuse to tell the Cubans to get their troops out of

Africa. If they refuse, we should bomb their troop ships." Asked what the U.S. should do if the Soviets retaliated by invading China, Kristol responded: "Send U.S. troops to help the Chinese fight the Russians. Henry Kissinger thinks this, too."

Israel's Neeman works with Reagan camp

Yuval Neeman, who stole the atomic bomb secrets for Israel and now heads the ultraright Tehiya Party, says that he and his followers are in close touch with Ronald Reagan's circles.

Speaking at a \$100-a-plate fundraiser for his party in New York City, Neeman was asked if he was actually coordinating activities with Reagan, and replied: "I wouldn't put it that way exactly, but the answer to your question is essentially yes."

Among other speakers were General George Keegan, who said that "Israel must come first" in the American battle with communism. A former Israeli Knesset member Moshe Shamir, told the audience that "we have come to the United States to steal your children," referring to the Tehiya's effort to recruit followers. The party's perspective is for creation of a "Greater Israel" encompassing much of the Middle East. Speaker Herb Zweibon of the Americans for a Safe Israel organization, said that the Tehiya seeks to "reconstitute a new Zionist elite," the racist notion of Judaism which views even most Jews as inferior beings.

Neeman said, "I agree with the Republican position on Israel," referring to Ronald Reagan. He said that he had met with Reagan's top advisors while in Washington; these included General Keegan, General Daniel Graham, and General Richardson.

General Keegan, the former head of Air Force Intelligence, which is heavily infested by Israeli and British intelligence, was part of those networks that aided Israel's acquisition of nuclear bomb capability. He and Neeman have

also been involved together in other activities, including their heavy current sponsorship of "parapsychology" and "psychic" research in the United States and Europe. Although nominally a physicist, Neeman's cultish belief in a "Greater Israel" for inhabitation by a "Zionist race" carries over in his orientation to mystical powers of the mind.

Reagan's advisors give fascist remedy for labor

As President, Ronald Reagan will seek to place trade unions under the anti-trust laws, the candidate himself told a South Bend, Indiana audience April 22. The anti-trust laws applied to the labor movement would give the Department of Justice the legal authority to break any union in the country. The fascist measure was drafted for Reagan by his labor advisor, Murray Wiedenbaum, head of the Center for Business Policy at Washington University, St. Louis.

Weidenbaum and the institution have been at the center of a network of institutions including the Whartton School, the Hoover Institute, the Brookings Institution, and others which are involved in a national campaign to destroy the building trades union, and to lower wage scales in general through repeal of the Davis-Bacon Act.

Weidenbaum, who also works for the Time-Life publications of White House special advisor Hedley Donovan, is an avowed proponent of a plan for military buildup that admittedly resembles Hitler's 1936 "Goering plan." Said Weidenbaum in a recent interview: "The defense economy provides a stimulus to research and development and growth of production which you do not find when you encourage civilian growth."

Reagan's other labor advisor, Charles Walker, is a trustee of the Wharton School. Both he and Weidenbaum were undersecretaries of the Treasury at the time secretary John Connally took the dollar off the gold standard, launching the present inflation. Both were avid lobbyists for Nixon's temporary suspen-

sion of the Davis-Bacon Act in early 1971, while Walker was publicly quoted at the time: "We must crush organized labor."

Anne Armstrong for vice president?

Anne Armstrong, known as the "Iron Lady" of Texas politics, is being boosted by certain factions in the Reagan camp as the ideal running mate for the former California governor. According to one newly named Reagan foreign policy advisor, "Anne would be a tremendous asset to the campaign. Imagine Reagan with a female running mate!"

Armstrong is essentially a British agent-of-influence. She is a member of the American branch of the British-intelligence institution called the Ditchley Foundation, as well as the English-Speaking Union, and the Council on Foreign Relations. Armstrong served as Ambassador to the Court of St. James under Richard Nixon—a post reserved for Anglophiles. Rumor has it that Armstrong is carefully studying videotapes of the British Prime Minister, "Iron Lady" Margaret Thatcher in preparation for a vice-presidential role.

Ann Armstrong delivered the formal reply of the Republican Party to President Carter's State of the Union address last winter; her statement was aired over national television just before the reply of Democratic candidate Lyndon LaRouche. *Executive Intelligence Review* at that time ran excerpts of Carter's State of the Union speech, a speech by Senator Edward Kennedy, and candidate LaRouche's television talk.

We did not run excerpts of Armstrong's remarks, but simply mentioned her proposal for immediate confrontation with the Soviet Union over Afghanistan; our editors explained our decision not to publish any part of her remarks, because we did not feel that the British aristocracy ought to have "equal time" on matters of American policy. Apparently, Ronald Reagan disagrees.

Briefly

● **ASTROLOGICAL** Consultants may be playing an increasing role in high level White House deliberations, it is reported. Although the identity of the consultants is still being kept confidential, a recent inquiry into the White House press office on this question elicited the response: "I'm not sure who the president is using currently. I'll have to look into it and see if I can give you an answer in a couple of days."

● **JOHN ANDERSON** has been offered the assistance of the leading West Coast "new dark age" kook group, "Novus," in helping to formulate policies for his independent presidential campaign. According to a Novus spokesman, "We think that John Anderson can become the lightning rod for the whole Aquarian conspiracy." According to Don Lesh, executive director of the U.S. Association for the Club of Rome, Anderson has also sought policy advice from his organization. The Club of Rome advocates the extermination of half of the world's population by the year 2000.

● **DAVID GARTH** has been chosen as the national campaign manager for the Anderson presidential effort. Garth was also responsible for running the campaigns of Governors Carey (N.Y.), Byrne (N.J.), Grasso (Conn.), and New York City Mayor Ed Koch. Question: Where *their* policies determined by Novus and the Club of Rome?

● **THE LABOR-BASED** Coalition for a Democratic Majority seems to be currently coalescing around the candidacy of Ronald Reagan. When asked if Reagan's recently announced commitment to bust organized labor with anti-trust laws would be an obstacle to their support, CDM leader Joseph Shattan replied: "That doesn't matter. The Soviet advance must be stopped. Domestic issues will have to wait."

Pa. primary signals wrecking of Dem. party

Senator Edward Kennedy squeaked out a narrow victory over President Carter and George Bush won a nonbinding beauty contest over Ronald Reagan in the April 22 Pennsylvania primary.

To those people who read the thousands of column inches devoted to election analysis last week or saw CBS commentator Walter Cronkite pontificating about "voting trends in the keystone state," the results should come as no surprise. All commentary had predicted a narrow Kennedy victory and an upset for Bush; even the margins were predicted.

The real news is not what happened, but why.

On the Democratic side, there are two interconnected operations afoot. Commentators have stressed that Carter's lack of decisiveness on Iran until recently had eroded his support. Sources close to the Carter campaign reported prior to the counting of the votes, that a defeat in Pennsylvania would make Carter more resolute in his determination to go to the brink in the Persian Gulf. "Carter is clearly going to try for a foreign policy breakthrough to stop his slide," a Washington source stated.

Moreover, the Pennsylvania results signal a major escalation in efforts to wreck what is left of the Democratic party machinery. Nearly a month ago, following "surprise" victories in New York and Connecticut, top Kennedy strategists, including Paul Kirk and Steven Smith, leaked that they planned to "open up" the Democratic Party convention by a floor vote of the delegates. They would ask for a suspension of rules, freeing delegates to vote for whomever they wanted and hope-

fully wiping out Carter's wide margin in primary and caucus won delegates.

As the votes came in, CBS's Walter Cronkite played back this strategy as now "unavoidable" and said that this year's Democratic Convention in August will be even more chaotic than the 1968 Chicago convention, which was placed under a siege by proterrorist anti-Vietnam war demonstrators and others.

Anderson could throw election into House

Presidential candidate John Anderson's decision to run an independent campaign could well throw the November election into the House of Representatives—an eventuality which could elevate Fritz Mondale to the Oval Office.

With major polls predicting that Anderson will garner 18 to 30 percent of the popular vote in the November elections, political analysts are speculating openly that the Illinois Congressman might draw enough electoral votes to keep either major party candidate from obtaining the 270 needed to win. If that happens, then the selection of the next U.S. President is left to the newly-elected House of Representatives; if the House cannot choose a President by March 4, by Amendment XII to the U.S. Constitution "then the Vice-President shall act as President, as in case of the death or other constitutional disability of the President." Given the current economic and political crisis sweeping the U.S., throwing the election into the House—which could mean a four-month hiatus between the election and the selection of a President—the country could easily be thrown into chaos. Some observers believe that some

kind of "emergency government," along the lines of the Federal Emergency Management Agency, could be imposed on the country.

Citizens party nominates Commoner

The Citizens Party, a crew of terrorists, environmentalists, and antinuclear fanatics, nominated Barry Commoner, a leading popularizer of "ecological" rubbish, as its presidential candidate at its convention April 10 in Cleveland. Commoner's vice-presidential running mate will be LaDonna Harris, wife of former Senator Fred Harris of Oklahoma, and an activist in the native American Indian movement.

Run from the top by Eastern Establishment patricians, including Archibald Gillies, a former assistant to New York Governor Nelson Rockefeller and head of the John Hay Whitney Foundation, the Citizens Party is being deployed to help wreck the Democratic Party and to begin organizing an outright "left-wing" fascist movement in the U.S.

The draft platform for the convention borrows heavily from Benito Mussolini's corporatist program. The economic plank reads in part: "The Citizens Party is pledged to redistribution of income... The Citizen's Party supports broad initiatives and experimentation in social ownership, and/or social control of business, workers self-management. ... The Citizens Party supports the development of agencies at all levels of government, state, local and national to pursue coordination and facilitation needed to rationalize economic planning... The Citizen's Party considers this to be the framework for a full scale restructuring of the American economy."