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EXECUTIVE INTELLIGENCE REVIEW

China plays the 'America card'

Is it an ace or a wild card? That is the question being asked in the wake of the U.S.'s long debated decision to terminate its relations with Taiwan and exchange ambassadors with the People's Republic of China. Zbigniew Brzezinski, James Schlesinger, and Henry Kissinger — the architects of the Administration's abrupt policy about-face — claim the move will lead to a Washington-Peking axis, with Peking serving as a Far Eastern "second front" against the Soviets in the Far East.

Others fear that the Administration move has played into the hands of those Chinese who want to play the card the other way: using NATO and the United States as a shield behind which China can accomplish its hegemonistic aims in Asia. Our THIRD WORLD report, assembled under the direction of Far East editor Daniel Sneider, presents their case, with an examination of the social and political forces at work within China, a look at the China policies being followed by leading U.S. allies, and a report on the concern the Administration move has aroused in Asia.

And, backing up that report, our SPECIAL REPORT features U.S. Labor Party Chairman Lyndon H. LaRouche's recommendations on how Congress can rectify the Administration's China policy mistakes. **page 8**

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IN THIS ISSUE

THE TEAMSTERS, DEREG, AND CARTER'S "7 PERCENT"

As the master freight contract talks draw near, the Teamsters clearly have the upper hand — despite what seemed to some to be an unbeatable strategy to weaken the union and force the industry into a tough anti-Teamster posture. In ECONOMICS, how the dissidents in the union were defeated, and why that's bad news for Carter's austerity program — but good news for the nation. Included: the role that FASH and the push for deregulation play in the story, with an in-depth explanation of what's wrong with dereg. Plus a personal reminiscence of the earlier career of the "dean of dereg," Carter's anti-inflation czar Alfred Kahn. **page 37**

IS OPEC OUT TO BUST THE DOLLAR?

That's the way the story of the OPEC price rise has been played in most newspapers across the country. In ENERGY you'll find the facts: what the price increase will, and will not, mean, and who the real targets of OPEC's move are. Featured in our coverage: an exclusive interview from our Brussels bureau with Jawad Hashim, the head of the Arab Monetary Fund. **page 33**

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ENERGY

ECONOMICS

U.S. REPORT

COUNTERINTELLIGENCE

ECONOMIC SURVEY

THE NEW DYNAMICS OF EAST-WEST TRADE

In its ECONOMIC SURVEY this week, *Executive Intelligence Review* takes a look at the East-West trade issue from the Soviet side, with a detailed examination by Soviet Sector editor Rachel Berthoff of the Soviets' latest economic plans and how they relate to the new European Monetary System and the prospects for world trade.

An exclusive from the Soviets' Novosti Press Agency on the necessity of a gold-backed world monetary system is featured in our coverage, with an introduction by Soviet analyst Susan Welsh that explains how the factional battle over the EMS has broken open in Moscow.

There's also a report on the American side of the equation by Maureen Manning of our U.S. desk, who has talked to the U.S. businessmen just returned from trade discussions in the USSR and relays their dismay: "How can Carter be so stupid?" **page 48**

WHO KILLED KING FAISAL?

In 1975 Saudi King Faisal was murdered. Now evidence has come to light linking the assassin to one of British intelligence's biggest operations in the U.S. And the trail leads further, to a vipers' nest of British and Israeli intelligence operatives whose own candid descriptions of their current operations against Saudi Arabia are included in our COUNTERINTELLIGENCE coverage. **page 45**

Cover design: Allan Yue

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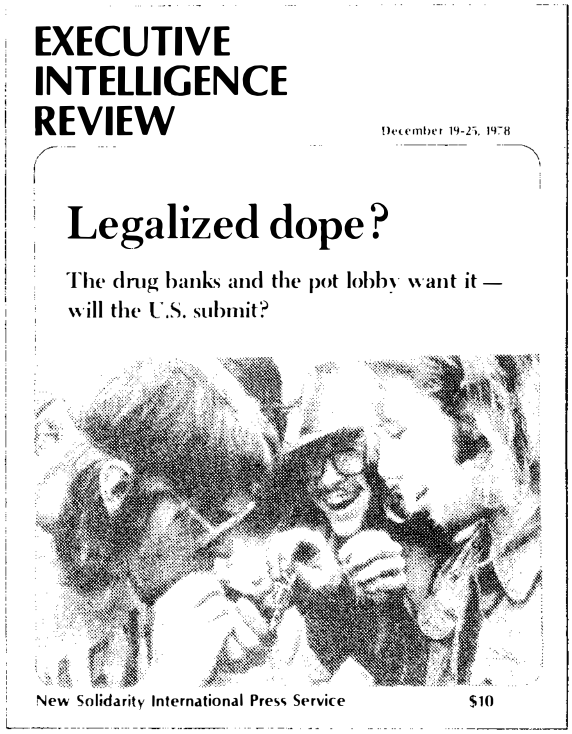

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really negotiated at the July 1978 Bremen and Bonn summits of industrialized countries . . . and how the European Monetary System launched at Bremen was *modeled* on a 1975 proposal by the American political economist Lyndon H. LaRouche, Jr. as the "seed-crystal" of a new, development-oriented world monetary system . . . how the United States can get into this system and out of the depression . . .

. . . REPORTED HOW

fusion energy researchers in the United States achieved the milestone breakthroughs reported in August, 1978 from Princeton, and what other advances are coming in this clean, cheap and virtually unlimited solution to the world energy crisis . . . how and why there was a massive sabotage attempt against the U.S. fusion program, and who's backing fusion now . . . what were Japan's and the Soviet Union's offers in 1978 to the USA for joint fusion R&D.

. . . DOCUMENTED

what's behind the world outbreak of terrorism . . . the names of the global networks that deployed both "left" and "right" terrorism to kill Juergen Ponto, Hanns-Martin Schleyer, and Aldo Moro—and plan an even bigger terror wave for the United States . . . Executive Intelligence Review provides the first-hand documentation from the world's press, including accurate translations from non-English sources, showing how continental Europe, Japan, the East bloc, the Arabs and developing sector countries are seeing and acting on events.

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Shaping U.S. foreign policy for 1979

Kissinger's geopolitics are leading the nation toward war

Syndicated columnists Rowland Evans and Robert Novak this week capped their efforts as leaksters for Henry Kissinger's geopolitical schemes with the following evaluation from a "highly placed" ambassador: "History will look back upon 1978 as the watershed year in which the West was lost and the Russians gained the superior position in the world, ending the postwar balance of power."

If these words did not come out of Kissinger's mouth, they might as well have. The West German daily *Die Welt* has just congratulated the former Secretary of State for reasserting "geopolitics" as the ordering principle of international relations. Perhaps this is because Kissinger, his minion Brzezinski at the National Security Council, the sycophants from the Republican National Committee orbiting around him have done more to wreck U.S. foreign relations during the twelve months of 1978 than any other political force, including the incompetent Carter White House.

The United States is now lurching from the Camp David fiasco, thoroughly discredited in the eyes of its traditional Mideast allies, into a disastrous new China policy which threatens to equally as thoroughly alienate America's friends in Asia. Elsewhere the policy spokesmen and press conduits of Kissinger's geopolitical madness have incited riots against the Shah of Iran, menaced the new Soviet-allied government of Afghanistan, and prodded Israel's warhawk faction into recurring provocations and disruptions in the Middle East. Policy toward potential U.S. allies in Latin America has been dominated by Brzezinski's formula for imposing limited sovereignty over the continent, and by Zionist lobby mouthpiece Ted Kennedy's efforts to grab Mexican oil as a "strategic reserve" against OPEC.

Due to these policies the world has remained suspended throughout 1978 by no more than a rotten thread of circumstance away from general thermonuclear war. This week's renewed Israeli incursions into southern Lebanon, captioned by the Begin cabinet's raving denunciations of the Carter Administration, highlight the danger that the world may not make it peacefully into 1979.

Zionist Lobby mobilizes

Nothing more forcefully underlines this war danger than the fact that the U.S. Zionist lobby has arrayed itself in full support of Israel's lunacy, and against a positive policy turn toward U.S. integration into the emerging European Monetary System. The U.S. Zionists have gone to the point of prompting Senate Minority leader Howard Baker to call for a lessening of U.S. pressure on Israel. Baker's call, reported by Radio Jerusalem, came this week as Israeli strafing of southern Lebanon approached the installations of United Nations peacekeeping troops.

But U.S. foreign policy makers have an alternative, provided Kissinger and Brzezinski's geopolitics are dumped. According to the White House, Soviet President Leonid Brezhnev, in an end of the year message to Carter, has "expressed his understanding that the U.S.'s commitment is to peace in the entire world, acknowledging the fact that the American position is that our new relationship with the People's Republic of China will contribute to world peace."

New Michigan coalition declares world war on dope

A mass meeting in Detroit Dec. 19 launched the Michigan Antidrug Coalition, drawing pledges of support from labor and religious leaders nationally, and congratulatory telegrams from sympathizers around the world.

Leaders of the World Community of al-Islam in the West and the U.S. Labor Party, two of the initiating organizations, told the audience of 2,000 that the Michigan effort would be the kernel of a world campaign to wipe out the dope traffic.

The initiating sponsors of the coalition included the World Community of al-Islam in the West, represented by Detroit Assistant Imam Salahuddin Muhammad and Flint leader Curtis Shamsid'Deen; the U.S. Labor Party, represented by Juan Torres; and the Flint chapter of the National Association for the Advancement of Colored People, represented by officers Max Dean and Susie Williams.

Endorsements for the new coalition have come from the International Brotherhood of Teamsters' flagship local 299 in Detroit, other IBT locals from around the country, religious leaders including Detroit's Baptist Reverend Holly and Rabbi Leon Fram, and political organizations from Colombia and Mexico to France and West Germany.

The huge attendance at the meeting reflected the enthusiasm of thousands more in the Michigan population. Most of the 70,000 leaflets printed by the coalition sponsors reached their audience through the mobilization of members of the World Community of al-Islam's congregation, auto workers, educators, and other citizens who had never before taken an active role in political life.

Chief Imam of the World Community of al-Islam the Hon. Wallace Deen Muhammad, scheduled to address the founding meeting, was unavoidably detained in Chicago, dispatching Imam Qasim Ahmad to Detroit as his representative. Coalition acting chairman Juan Torres introduced meeting chairman Salahuddin Muhammad, one of the coalition's initiating sponsors. Presenting the first featured speaker, the U.S. Labor Party's Kalimtgis, Salahuddin said, "This is a man who is trying to bring the Truth to you that is higher than himself."

Kalimtgis began with praise of Imam Wallace Deen Muhammad as one of the greatest humanists of this century. "Imam Wallace Deen Muhammad is showing us that it is not enough to believe in reason, to contemplate reason, for one must organize the forces that believe in reason to change the world. The nation, regardless of race, color, and creed, and not merely the nation, but the world will
conscious of his struggle and his contribution," Kalimtgis said. "And in that spirit, I address you."

Kalimtgis denounced the British oligarchy, "which sees Man as man, the animal. The people who represent this view, the people who are behind the dope trade, are the people who have been the enemies of this country, even before our country came into existence. The same forces which the Founding Fathers fought, the same forces who killed
and carried off the Confederacy, who ran slavery in this country — their grandsons and granddaughters are the ones who run the dope trade today."

To roaring applause, Kalimtgis named the famous names linked to the dope traffic by the exhaustive research of *Dope, Inc.*: "The Sutherland family, the Keswick family, the Swire family, the Inchcape family were the owners of the Hongkong and Shanghai Bank, the owners of Standard and Chartered, of Barclays, of National Westminster, of Lazard Freres, of Kuhn Loeb. These are the forces behind the dope trade.

"The British subverters have always had U.S. traitors as allies in their drive to destroy America. Since the time of the Civil War the leading domestic traitors have been the Zionists. Today, their descendants, the Zionist Lobby, are London's leading partners in the international drug trade."

Kalimtgis concluded, "Once we set the forces together that represent Reason and progress; once our forces form an army against our enemy; once the population gets a taste of victory based upon Reason, then Reason itself becomes the basis for mankind's process in existence. Once that occurs, then the forces of Reason and progress are unstoppable."

Man as homo sapiens

At the end of several minutes' applause, Kalimtgis presented a copy of *Dope, Inc.*, the U.S. Labor Party's just-released expose of the international drug cartel, of which he is coauthor, to Imam Qasim Ahmad, the evening's next speaker. Qasim Ahmad in turn presented Kalimtgis with a copy of the Hon. Wallace Deen Muhammad's recently-published *Lectures*.

Qasim then delivered an hour long address, portraying the great development of the World Community of al-Islam in the West under the leadership of Imam Wallace Deen Muhammad.

"You have yet to understand what this man has done," he said. "You have yet to understand that those who criticize his movement in transforming this community from racism, dualism, false worship, confusion, all the things that have plagued our lives — have yet to see that he came in and worked with the Invisible that existed in the human being."

"Imam Wallace Dean knew the problem. He knew the problem in our community and we're here to bear witness and testify that we were transformed — brought into a better understanding, understanding that man is not physical fleshy bodies, but that man is homo sapiens, thinking being...

"In al-Islam, belief counts for nothing unless carried into practice. Did we come here tonight to hear a speech, or did we come here tonight to seek ways and means to eliminate problems that are in our lives? We need human people, people that are concerned about the human development that exists in the world. Not people that are opportunists."

The evening concluded with a short greeting from U.S. Labor Party Chairman Lyndon H. LaRouche, Jr., by telephone link to New York City. Participants who had risen to leave when the Islamic leader concluded his address stopped, and listened in the aisles, as LaRouche described the world-wide significance of the coalition's birth, citing the immediate response of leading political forces in France.

—David Goldman

Mexican oil—the one fix the New York Times won't push

As our readers know, U.S. Energy Secretary James Schlesinger has been working overtime to hush up the huge Mexican oil finds. These discoveries could bring Mexico's total potential reserves to as much as 350 billion barrels and dash his plans for an oil crisis. But, on Dec. 20, the *New York Times* did Schlesinger one better, running a lengthy complaint by guest columnist Daniel Yergin. Yergin's complaint is that the oil find is only feeding wishful thinking in the United States.

"The most pervasive drug coming out of Mexico today is no longer marijuana but rather oil," says Yergin. "One dizzying estimate of Mexican potential follows another, all of them promising that Mexico will become another Saudi Arabia and so provide a miracle solution to the protracted energy crisis. . . .

"The 'high' induced by Mexican petroleum has infected the draft of a key National Security Council document, Presidential Review Memorandum 41, which is based on the wild assumption that 'Mexico could fill 30 percent of U.S. import needs by the mid-1980s.'

". . . There is a powerful drive in the United States to find a quick fix to what is a most difficult problem," Yergin writes, lambasting in particular the notion that technological advance can solve the energy crisis. "Nuclear power . . . America's coal reserves . . . and technologies that will not make their impact until the next century . . . fusion" is not around the corner. "Miracles do happen, but a prudent society does not count on them."

"How much easier to sit back, shut one's eyes, and, while waiting for the 1980s, take an exceedingly long drag on a joint that has been marinated in Mexican oil."

Demands 'cold' reason

"A little cold reason is required," demands Yergin, particularly before U.S. business and other oil consumers begin realizing that the much threatened energy crisis is not much more than a scenario by Schlesinger and his scribblers like Yergin.

China plays the 'America

Is Brzezinski's 'ace' a wild card the U.S. can't handle?

Under prompting from National Security Advisor Zbigniew Brzezinski and Energy Secretary James Schlesinger, the Carter Administration played its geopolitical "ace" last week, precipitously moving to extend official diplomatic recognition to the People's Republic of China in what Brzezinski sees as an effort to construct a "second front" against the Soviet Union in Asia.

Displaying what one perceptive China expert labeled "strategic tunnel vision," the Administration achieved its link-up with China by yielding on every fundamental point which had been in dispute between the U.S. and China over the important issue of Taiwan, and, at the same time, effectively granted the Chinese a sphere of influence over Southeast Asia. For that price, Brzezinski calculates that he has bought an important ally against the Soviet Union. The card he has played is actually a wild card in international politics, and, most experts calculate, the recognition move is reinforcing the "Han Chauvinist" tendencies within China that have made China historically the nemesis of nationalism and development in the Far East. If the pattern of the Administration's Camp David miscalculations is repeated, the "China card" could in fact force the fiercely independent nations of Southeast Asia to turn toward the Soviet Union as a counterweight to the U.S.-China axis.

What Asia, and many in the U.S. and Europe, fear is that rather than obediently serving as a NATO "second front" against the Soviet Union, the scheming and cynical Chinese leaders, Teng Hsiao-ping foremost among them, will use U.S. relations as sanction for Chinese domination in Asia. Asians are already monitoring closely China's moves against Vietnam — and the implicit Administration sanction given those moves through its support for China's puppet Cambodia — and none of Vietnam's neighbors which is familiar with the history of Chinese policy in Asia shares the National Security Council view that the China-Vietnam conflict is essentially a surrogate conflict with the Soviets. In the longer term, there is concern—the Soviets said so publicly (see page 10)—that the Administration has taken too little notice of China's official policy that "war is inevitable" between the Soviet Union and NATO. Where other countries are working to reduce that danger, the Administration's geopolitical orientation tends to reinforce the potential for conflict — which the Chinese will certainly attempt to manipulate to their perceived advantage.

In the following three-part report, we analyze the powerful social and ideological forces at work in the Chinese population and leadership, indicating the pitfalls which must confront a nation such as the U.S. (and, importantly, Great Britain) which attempts to manipulate the Chinese along the lines proposed by geopolitical doctrines and adopted by the Carter Administration. Then we contrast the more cautious and farsighted strategic approach adopted toward the China question by Japan, West Germany, and Mexico, all nations which have major dealings with the Chinese. Finally, we report on the concern which the recent U.S. move has aroused among America's traditional Southeast Asian allies.

1. The 'New China' versus the 'Old'

For 10 days in late November, a force and a spirit welled forth from the Chinese population that, with one brief exception, has not been seen since the "Young China" upsurge of the first three decades of this century. This "New China," permitted to freely write wall posters in Peking and other cities during that 10-day period, displayed the same desire to reform the nation, the same iconoclasm and idealism, that sparked their predecessors more than 50 years ago, the generation which —behind the reform banner of Sun Yat-sen —formed the Communist Party itself in 1920.

For those 10 days, the "New China," the China of intellectuals, youth, and industrial workers seeking to cast off the dead weight of 2,000 years of a sterile Chinese cultural tradition with rationalism and science and bring China into the modern international community, spoke to the world and to its rulers. It spoke of the anger and bitterness of, especially, the last 12 years, all but two of them under the arbitrary and insane rule of Mao Tse-tung,

card'

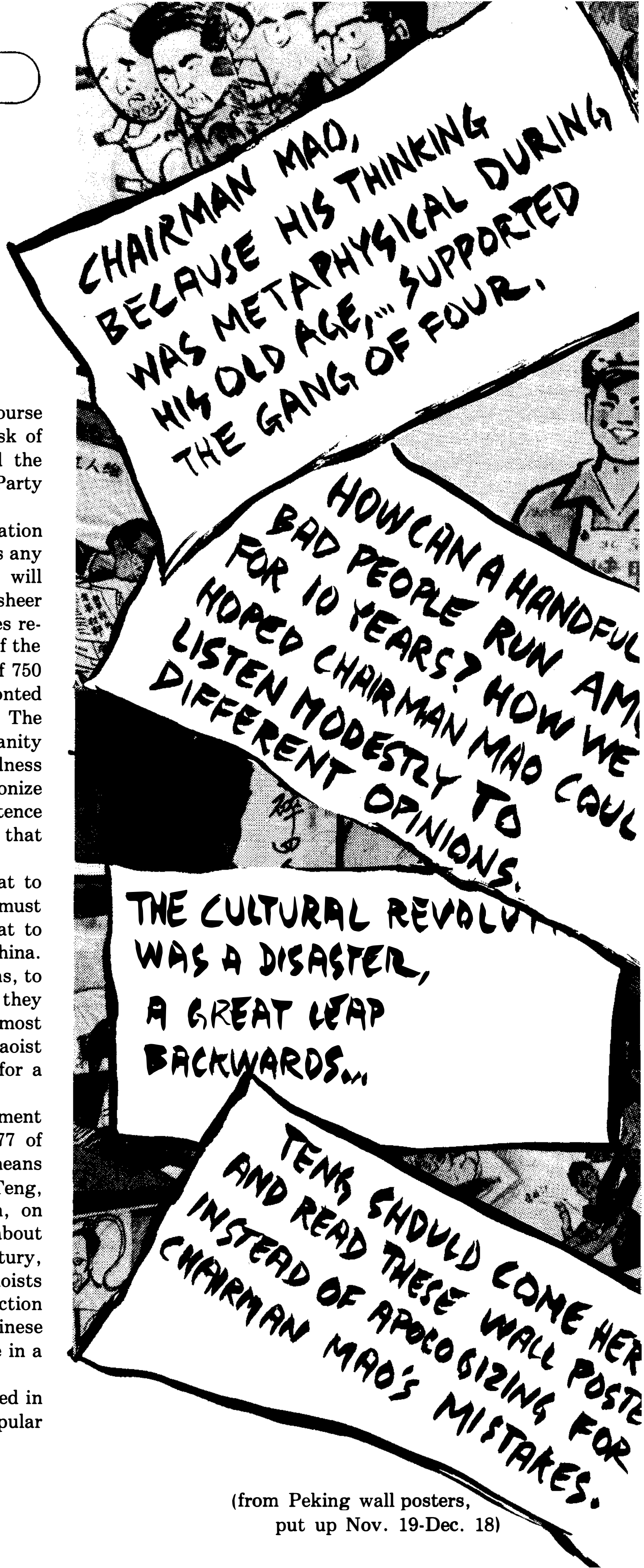
and it spoke of the need to abandon the unworkable course charted by Mao, and to move forward with the task of modernizing a China freed of the mythologies and the repressive hand of the government and Communist Party that brought on the Maoist tragedy in the first place.

The modernization — that is to say the industrialization and urbanization — of China is a task as formidable as any attempted in the history of mankind, one which will require a period of some 25 years to accomplish. The sheer magnitude of industrial capital and financial resources required is staggering. Even more immense is the task of the social transformation required for the "Old China" of 750 million or more peasants — a task that has confronted Chinese reformers since the end of the 19th century. The issue remains the same: how to free a quarter of humanity from peasant bestialism, superstition, and backwardness and bring it into the modern world; how to revolutionize the conservativism of family-centered personal existence and the bureaucratic, mandarin mode of government that have ruled China for centuries.

The post-Mao Chinese leadership understands that to make China into a strong nation, the country must modernize as rapidly as possible. And it knows that to modernize it must harness the energies of the New China. It has attempted, in a succession of popular campaigns, to reassure the formerly persecuted intellectuals that they will no longer face constant harassment, to repudiate most of the unpopular and economically destructive Maoist domestic policies, and to arouse mass enthusiasm for a new order.

But the hegemonic faction in the Chinese government — since the complete rehabilitation in June of 1977 of Vice-Premier Teng Hsiao-ping — has been by no means committed to modernization as an end in itself. From Teng, the regime's staunchest advocate of modernization, on down, it is deeply infected by cynicism, cynicism about the ability of the Chinese people to enter the 20th century, and cynicism toward the outside world. While the Maoists tend to oppose modernization outright, the Teng faction tends to see it rather as a means to the goal of Chinese hegemonism in Asia and a strengthened Chinese role in a world community dominated by geopolitical blocs.

Domestically, the Teng faction's outlook is reflected in the careful limits that Teng has defined in the popular



(from Peking wall posters, put up Nov. 19-Dec. 18) mobilization behind the modernization drive; his allies such as *People's Daily* editor-in-chief Hu Chi-wei have progressively escalated their polemics against Maoism while generally holding back from direct attacks on Mao himself.

In foreign policy, the picture is far worse, and certain to rebound against the domestic modernization effort. Relying on the most overtly racist foreign policy approach in the world outside Great Britain — the Han Chauvinist doctrine of Chinese superiority over the "barbarians" — the Chinese have allied with the forces in today's world most opposed to industrialization of the underdeveloped world, from the British drug-running networks in Hong Kong to the oligarchist forces in Great Britain (which is negotiating to supply modern arms to the Chinese) to the architects and supporters of the Carter Administration's "Camp David" and "China card" policies.

Moreover, there are signs that the Teng leadership may lack some of the understanding of basic economic planning and methods needed to accomplish the modernization goals it has set.

A formidable challenge

Even a more farsighted leadership than Teng's would find itself confronted by formidable challenges in the effort to modernize China. To begin with, there is the baleful legacy of Mao's last 10 years in power, from 1966-76, a period in which Mao's unleashing of mass anarchy and virtual civil war for arbitrary factional purposes created animosities within the population that will not die out for generations. The most concentrated expression of this destructive process is the top-level faction fight between the forces led by the twice purged and twice restored Teng Hsiao-ping, and those Politburo members, led by Mao's security chief Wang Tung-hsing, who owe their careers and political legitimacy to this very post-1966 period. For the latter, every attack on Maoism undermines their claim to retain their posts. Since millions of Communist Party cadres were purged between 1966 and 1969 by the Maoists, and since half the Party was admitted after 1966, there is a huge organic constituency with a stake in slowing de-Maoization. Meanwhile, the now rehabilitated former party leaders want their old positions back, virtually pitting the "old" party against the "new" party at every stratum down to the village level.

Moreover, the wall posters demonstrated (see excerpts page 13) that many Chinese want to completely repudiate Mao, at least after 1957, which is much farther than even Teng can afford to go without calling into question the legitimacy of the Communist Party itself.

The five modernizations

Under the rubric of the "four modernizations," a slogan launched by the late Chou En-lai in 1974 encompassing agriculture, industry, science and technology, and defense, Teng has initiated a wide range of radical policy shifts that constitute a general repudiation of Maoism. For industry, Teng has placed managers in charge again, made productivity and profits the criteria of success, stressed improving quality of products, and called for an end to small labor-intensive plants in favor of large capital-intensive ones in many fields. For the labor force, he has reintroduced bonuses and wage incentives for high productivity, cancelled the frequent and time-consuming political study sessions in factories, and called on workers to take pride in and responsibility for their work. Things as elementary to all other countries as legally binding contracts governing transactions between factories are being introduced. And in agriculture, peasants are being allowed to enlarge their private plots, regional markets are being reopened, and remuneration for collective farm labor has been put on an output, not a time, basis.

Equally as important as these, however, is what deserves to be called the "fifth modernization," modernization of thought (see p. 12). For the last year and a half, basic science and technology have been emphasized as having the utmost importance for China's future. Recently it was announced that over 600,000 science centers would be set up across the country to teach popular science to the peasants. Other campaigns have been launched for everything from learning from foreign literature to the need for "socialist democracy" and a socialist legal system (China has no legal codes in any field to date).

Soviets to U.S.:

In their first public response to President Carter's Dec. 15 announcement that the U.S. will recognize the People's Republic of China, the Soviet party daily Pravda *said Dec. 19: "The present renewal of diplomatic relations between the U.S. and China is not only a historical necessity. It must also be a contribution to the future cause of peace in Asia and the whole world."*

While avoiding the Brzezinski bear-trap set to disrupt their detente policy toward the U.S., the Soviets clearly warned the China card players of the danger of their game. On the same day as Pravda*'s response to the Sino-U.S. thaw, another* Pravda *commentator, Beglov, warned: "The harsh lessons of history remind that blind reliance on anti-Sovietism always ends in tension and war and the first victims turn out to be the instigators of such opportunist policies and their countries."*

The Soviets have often chosen the British appeasement of Hitler as an example of such "opportunism" aimed at creating anti-Soviet military adventures. A Soviet television program aired after the Carter announcement again pointed at Britain. The "Tragedy of China" showed British Chief of Defense Staff Sir Neil Cameron embracing Chinese leaders and calling the Soviet Union "our common enemy."

However, even before Carter's formal announcement the military daily Red Star *was warning against incorporating China into a new anti-Soviet military alliance.*

The economic bind

Most of these measures, however, only go to undo the Maoist damage and return the country to the status quo ante of 1957, when Mao launched his madcap "Great Leap Forward." Dealing with modernization has proved far more difficult. In addition to the Cultural Revolution and the Communist Party factional situation, the regime is headed for a severe economic crunch. It can only sustain the support of its working class on the condition that living standards are allowed to rise. But the massive demand for reinvestment of capital will make it next to impossible to grant any significant general pay increases for many years.

As a partial solution to this problem, in the space of a few short months the regime has entirely abandoned Mao's proscription against taking foreign loans, and has begun contracting debts into the billions. At the same time it has imported, or intends to import, a series of mammoth industrial projects, especially in coal and steel. Across the board, it is soliciting foreign investment in joint companies, and apparently intends to use its as yet undeveloped off-shore oil for many of the payments.

So much has been noted, but the potential dangers have not. It is not clear how well-thought-out or competent the economic planning behind these projects is; very little planning has gone on for a decade. If other nations' experience is any guide, China's normal import bill will rise astronomically in the wake of the present round of construction of new plants. How will this be sustained? Is China already overextending itself in foreign loans?

Even more important, what will be the domestic costs? Can the population assimilate the rapid pace of foreign capital acquisition? What about the social disruptions occasioned by rapid industrialization, including an inevitable flood of people to the cities such as caused a crisis once before in 1958? If the breakneck pace of foreign capital installation leads to breakdowns in the process sheet of production, can this breed disillusionment with the whole process?

One ominous development in this regard has been the strong Chinese interest in the so-called Yugoslav model of development. As applied in Yugoslavia, this has not only led to an economic crisis and diminishing productivity, but to centrifugal tendencies that could tear the country apart. The Chinese leaders, desperate to inculcate enthusiasm in the population without having to provide much material reward, apparently are bedazzled by the seeming ability of the Yugoslav model to arouse this enthusiasm by so-called "worker participation" in management.

World peace at stake in China policy

In his Red Star *article of Dec. 17, "NATO for Asia?" Col. A. Leontiev writes:*

...The present U.S. administration has worked out a new strategy for Asia and the Pacific Ocean, which is viewed as a further growth of American military might in that region, and at the same time a strengthening of the partnership with Japan and China.

Now in the USA it is not only Tokyo, but also Peking which is referred to as the "fulcrum" of its strategy in Asia. Furthermore, the idea of creating a military-political bloc composed of the USA, Japan and China is now being proclaimed there. China's contacts with Japan and the USA are developing in such a way that specialists are talking about the origin of a "trilateral alliance," writes the *New York Times*....

Everyone is entitled to choose their own allies according to their own tastes. In his day, the Fuehrer bragged that he was ready to ally with the devil himself, so long as he emerged victorious. But the Fuehrer was a man obsessed. Are not certain gentlemen becoming like him, who intend to enter a coalition with those who are calling openly for a new world war, whose adventurism, duplicity, political unprincipledness and treachery is known to all the world?...

The advocates of creating a "NATO for Asia" stand on one and the same anti-Soviet and anti-socialist platform. The only difference between them is that in Washington and Tokyo they call the Soviet Union "the most likely enemy," whereas in the Chinese capital they call it "enemy number one." But they are both dreaming about the liquidation of the revolutionary gains of the peoples, a new recarving of boundaries, and the establishment of their hegemony in Asia, and see in the Soviet Union the main obstacle in their path....

The widely proclaimed "unanimity" cannot conceal the fact that each of the participants (in the proposed bloc — ed.) views its partners as solely temporary, tactical allies....

Three-quarters of the territory of the USSR is located in Asia, and naturally our people are vitally interested in consolidating security in this region of the globe. The Soviet Union acts so that international detente can be deepened and broadened, so that it can be spread to the most populated continent of the planet — Asia. "Peace, quiet, being spared from interference from outside, good-neighborly relations — that is what Southeast Asia and the Asian continent as a whole, the countries of the whole world, particularly need," said Comrade L.I. Brezhnev in this regard recently.

Attempts by the enemies of detente to forge a new military bloc and at the same time to complicate the situation in the Far East demand from us unflagging vigilance, constant readiness to guard the interests and security of the Homeland.

The lie that binds

Teng Hsiao-ping and his cohorts want to modernize the country in order to make China a strong power, to begin to restore the sense of self-importance felt by an ancient and once-proud nation. To do this, however, they are tapping a fount of popular emotion that goes far beyond what the regime is prepared to sanction. The proof of this is in China's Han Chauvinist foreign policy. China is not trying to add its weight on the side of peace, but is promoting a public line it knows to be untrue — the claim that the Soviet Union is out to conquer the world, starting with Western Europe — for purely cynical reasons of state best described in China's own jargon as "manipulating the foreign barbarians." China's short-term strategy is to soak the West for all the economic and military aid and capital it can get in the shortest time by playing up to what China perceives to be the West's psychological vulnerability — fear of the Soviet Union. The irony of this situation, as one top U.S. analyst put it, is that China undoubtedly sees not the Soviet Union, but the U.S. and Japan as its long-term strategic opponents in Asia, and fully intends to turn its Western-aided strength to serve this interest at some point in the future.

The Teng faction relies on a similar lie domestically. For them, the New China is a means, not an end. They seek to *use* this ferment for their own purposes, but this is more dangerous than they seem to realize.

The question is not whether China's problems are intractable. They are difficult, but not intractable — *provided* China's leaders can face them totally realistically. China needs detente with both the U.S. and the Soviets: it needs the increased, and more concessional, aid that would be available if detente freed massive U.S. and Soviet arms budgets for world development, it needs the full implementation of the development-oriented European Monetary System immediately — which China's policy implicitly damages—and it needs to be able to rally its population on just such a *universal* principle. The analyst referred to above summed up the Chinese leadership's problem as a fundamental lack of *humanism*. Without that quality, the present leadership will find it cannot solve its problems in the end. Yet, the measures it is taking will lead to a completely different China in 10 to 20 years. The United States must orient to that 20-year process, the New China that promises at last to solve the world's — and China's — "China problem" and not to momentary configurations in Peking or strategic will-o-the-wisps.

—*Peter Rush*

Chinese press exhorts

The newspapers and radio in China have been largely taken over by the factional supporters of Vice-Premier Teng Hsiao-ping. The media is supporting Teng's program of modernization with a wide range of coverage of the problems facing China: chaos and inefficiency in industry, the persistence of the peasant mentality, the necessity to end religious worship of "Mao Tse-tung Thought," and others. But, while a window has been opened on daily life in China, the official press has stopped short of outright repudiation of the insane Mao legacy. Some excerpts:

People's Daily, Aug. 29: Those comrades who are reluctant to learn and apply science, who despise and belittle science and technology and who are instead proud of being "rustic" actually regard the modes of handicraft production and the habits of small production as unalterable. . . . These comrades should quickly liberate their thinking by learning science and technology.

Hsinhua, Sept. 16: Machinery products are backward. Most are up to world standards of the 1940s or 1950s, incapable of meeting the needs of a modernized economy. . . . At present the poor quality of the products of the machine-building industry has almost become the central topic of the whole party and country.

Hsinhua, Sept. 16: The technical level of our production (of fertilizer — ed.) is still very backward. . . . At present each agricultural worker turns out an average of some 2,000 catties (about a ton — ed.) as compared with the more than 100,000 catties of the United States.

Red Flag, Oct. 1: Some leading cadres . . . feel no qualms about the old equipment, techniques or work processes which they have been using for decades or even centuries, and will not forsake them. . . . These backward things essentially stem from, and correspond to, our backward modes of production. The small peasant economy had always occupied the dominant position throughout the several thousand years of feudal society and the century and more of semifeudal and semicolonial society.

People's Daily, Oct. 14: In the days of Lin Piao and the Gang of Four, people had to take part in "living study." They had to begin their speeches, articles and even letters by quoting Chairman Mao or other revolutionary leaders. Quotations were posted everywhere. They were written at the beginning of announcements,

the nation to modernize...

on various commodities and even on packaging. This is ridiculous in the extreme. . . . It is imperative that we see that Mao Tse-tung thought needs to be enriched and developed by new experiences.

People's Daily, Oct. 14: Experiences, both of advanced and backward nations, have proved that the reorganization of scattered, small-scale serial production into concentrated, large-scale specialized serial production is conducive to adopting advanced production technology, raising labor productivity, improving quality, lowering consumption, renovating products and saving investment.

Hsinhua, Oct. 15: "Chinese civilization has constantly drawn on foreign culture, and, in return, contributed to world civilization [a former prominent Chinese professor once said]." . . . New China has published translations of important world literature covering works from ancient Greece and India and various periods up to modern times. . . . Publication of European classics, modern works, and new writings by Asian, African and Latin American authors, study of the Renaissance, the Enlightenment, 19th century critical realism . . . are all being resumed.

People's Daily, Nov. 9: Every forward step in history requires emancipated minds. . . . The emergence of Marxism itself resulted from the development of large-scale industry and the great emancipation of mankind. . . . Marxism-Leninism-Mao Tse-tung Thought has not put an end to truth.

...Wall posters attack Cultural Revolution, Mao, even Teng

A wall poster campaign begun on Nov. 19 in Peking with official approval quickly spread out of sanctioned bounds as it became more uninhibited than the official media. Posters have appeared attacking Mao by name, and some have even attacked Vice-Premier Teng for blocking full exposure of Mao. There seems little doubt that by Monday, Nov. 26, Teng felt compelled to rein in the freewheeling, self-styled "democratic movement" that had already extended to marches and street speaking, and on Nov. 28, word apparently went out to end the campaign. But, after a week's hiatus, posters began reappearing Dec. 8. Some samples:

Nov. 19 poster: "Chairman Mao, because his thinking was metaphysical during his old age and for all kinds of other reasons, supported the Gang of Four in raising their hands to strike down Comrade Teng Hsiao-ping. . . . Mao's mistaken judgment about class struggle [was used by the Gang]."

Nov. 24 poster titled "We've had enough of Dictatorship": "Chinese, arise. The time has come to oppose all dictators, whoever they may be. We must judge them and settle scores with them right along the line. . . . Begin the fight against the tsar [Mao] . . . [likened Mao to dictator first emperor of China who] oppressed the people and burnt books. . . . For thousands of years Chinese history has consisted of knocking down emperors who made history into the history of emperors . . . We must destroy the ideological great wall of several thousand years of dictatorship" [Signed "Torch Society" or "Society of Lights."]

Nov. 25 poster: "We say Premier Chou En-lai was the people's good premier and the people loved him very much. Why couldn't you (Mao) get this love from the people? . . . How can a handful of bad people run amok for 10 years? How we hoped Chairman Mao could listen modestly to different opinions. It is a pity he can't do so now."

Nov. 26 poster: "The Cultural Revolution was a disaster, a great leap backwards for China. . . . How many ordinary people were massacred, how many unfair trials were held, how many tragedies came about?"

Nov. 27 poster: "Who made history — Chairman Mao or the people? . . . Why must people always be overthrown if they have different opinions?"

Dec. 8 poster: "Statements about the people being masters of history are no more than empty talk. . . . If it were not for Mao Tse-tung's personal despotism, would China be in the state it is in today? Why did the people go along this road? Is it not because that bragging despot forced them along it? Is this the road to socialism? Of course not. It is a feudalist monarchical system disguised in the cloak of socialism. If we want to modernize our economy, science and so on, we must first modernize our people and modernize our social system."

Dec. 18 poster: "Teng thinks stability and unity are in the public interest and in the interest of modernization, but I think differently . . . .Teng should come here and read these wall posters instead of apologizing for Chairman Mao's mistakes."

2. U.S. allies opt for 'New China'

Perhaps the most remarkable aspect of the rising euphoria in Washington over playing the "China Card," is that the game is diametrically opposite to the policy toward China being pursued by the friends and allies of the United States. West Germany, Japan and Mexico stand out as the three nations that have developed perhaps the most far-sighted approaches to China, the goal of which is to strengthen world peace by prodding Peking to become a more "civilized" member of the international community.

The differences between the China policy of the Carter Administration as it currently exists and that of these three nations are fundamental. Thinking no further than the next two to three years, Washington policy-makers are angling to use China as a "strategic counterweight" against the Soviet Union. Ask Administration officials about the long-term effects of such an American policy toward China, and they will tell you not to bother them with "details." On the other hand, Japan, Mexico and West Germany are pursuing a well-thought-out, long-term policy toward Peking, which is designed to use China's dependence on the West for aid in her current drive for economic modernization to induce a simultaneous modernization in the outlook of the Chinese leadership. By drawing China into deeper economic collaboration with the western countries and Japan, officials in these three countries believe that China itself will gain a greater interest in world peace and stability. These officials caution however, that such an economic cooperation approach to China must be coupled with firm warnings to the Peking leaders that their repeated dire predictions of the inevitability of war and related efforts to disrupt detente agreements such as the Strategic Arms Limitations Talks between the United States and the Soviet Union, have little support in the West. Combining these two aspects of a long-term policy will force the Chinese to adopt a more moderate foreign policy.

German and Mexican approaches

This long-term policy toward China was fully in operation when West German Chancellor Helmut Schmidt and Mexican President Jose Lopez Portillo made separate visits to Asia last October. Schmidt went to Japan for three days of talks with then-Prime Minister Takeo Fukuda, and Japan's plans to sign a Treaty of Peace and Friendship with China was one of the main topics of discussion. Fukuda is known to have fully informed Schmidt of Japan's plans to sign the treaty with China, but assured the German Chancellor that Japan would firmly resist Peking's pressure to become involved in China's feud with the Soviet Union. Schmidt is believed to have endorsed this view fully, and was reported to have urged Fukuda to follow up the China treaty with an effort to improve Japan's relations with the Soviet Union. During several public functions in Tokyo, Schmidt very strongly attacked the "China card" idea, and fully dissociated West Germany from the policy. It was also significant that Mr. Schmidt did not go to Peking while he was in the Far East; most top western leaders, especially those that support the "China card," normally travel to Peking while in Asia to emphasize the "strategic" importance China holds in the West.

Since his visit to Japan, Mr. Schmidt and his Defense Minister Hans Apel have barred all West German military personnel exchanges with China. Despite these firm policies of the West German government, however, China has continued to award contracts to West German corporations, proving that it is not necessary to play the "China card" to enjoy economic cooperation with Peking.

President Lopez Portillo was equally clear in the policy he adopted toward China during his October visit to Peking. In fact, the Mexican President's visit was quite unique for the open and frank remarks he directed at the Chinese leadership. While extensively praising the efforts of China to modernize, Lopez Portillo firmly told the Chinese that their views on the inevitability of war are harmful and wrong. Moreover, he chastized his hosts for viewing the world, and making decisions, "from behind a great wall," a remarkable, direct attack on the chauvinism of the Chinese leadership. It is precisely this chauvinism within China that must change if the West is to be sure of long-term friendship with Peking.

The Japanese approach

For historical and other reasons Japan is today the nation best informed on China. Having suffered the stifling effects of Chinese culture and philosophy, and broken with those traditions while modernizing, Japan has gained unusual insight into the psychology of the "Great Han Chauvinism" which afflicts China even today.

The recently concluded treaty between Japan and China took more than six years to negotiate, largely due to Japan's unwillingness to bow to Chinese pressure and accept anti-Soviet provisions in the text. Japanese officials strongly emphasize that it would be a disaster for Japan to become embroiled in the Sino-Soviet dispute. Though Japan would not be overjoyed by the prospects of a detente between China and the Soviet Union, most Japanese officials stress that this would be far better for Japan than a heightening of tensions between those countries, as Japan could easily become involved in any military conflict.

The Japanese are deeply aware of China's cynical disregard for "outsiders," and its historical penchant to manipulate the "barbarians" to fight against each other—to the benefit of China. Officials in Tokyo are truly baffled by the fact that Henry Kissinger, Zbigniew Brzezinski and other players of the "China card" have proven such easy prey for the mandarins in Peking. Of course, they say, Mr.

Kissinger thinks he is manipulating China, but this is a fantasy. "We have watched China for 2,000 years," one official said. "Mr. Kissinger has watched China for only one day. Mr. Kissinger has mere high school theories."

If there is one word that characterizes Japan's business relations with China, it is caution. Though the Japanese are eager to pursue an industrialization policy toward China, as part of their long-term policy, business and government officials are the first to admit that they do not have a full understanding of Chinese political developments; no one does. Officials stress repeatedly that China is an immensely backward country, which makes the country's political processes highly unstable. Thus, the present leadership, which favors modernization, may be seriously challenged by opponents and toppled from power, and this ever-present danger of instability in China necessitates patience, and a long-term policy based not on support for one individual leader or faction, but "the masses of people," in the words of one official.

Finally, Japanese business and government officials emphasize the absolute need for Japan to balance its relations with China and the Soviet Union. These officials are quite sure that within five to seven years, after China has gained technology from the West and Japan, Deputy Premier Teng Hsiao-ping will lead China into a detente with the Soviet Union. China will do this based on a new confidence gained from increased economic power, and if Japan lacks relations with Moscow when the shift takes place, Japan will be isolated from both China and the Soviet Union.

—Peter Ennis

Far East specialist fears U.S. preoccupation with 'Soviet threat'

Professor James Hsiung, the director of the Modern Far East Program at New York University and editor of a forthcoming book, China in the Global Community, *talked with* Executive Intelligence Review *about President Carter's decision to establish diplomatic relations with China. His estimation is, "the United States could have gotten much more of a concession," and that National Security Advisor Zbigniew Brzezinski is preoccupied with the idea of using China against the Soviet Union, while neglecting longer-term U.S. interests. The interview:*

EXCLUSIVE INTERVIEW

EIR: What do you think of President Carter's normalization of relations with the People's Republic of China?
Hsiung: I think it is a great day for China. China wanted this very much. Teng Hsiao-ping is a man in a hurry who wants to be remembered not for personal or power concerns but for carrying out the late Chou En-lai's modernization program for the country, and this is important for what he wants because it helps to enhance the course he is following.

EIR: Could President Carter have gotten more in concessions than he did?
Hsiung: Yes, I think so. There were reports last summer that China was willing to accept one of the three conditions Carter listed at the Trilateral Commission meeting in June, for a trade mission in Taiwan, and also might agree to not contest a U.S. assertion that China would not use force against the island, and only refused the third condition, permission for arms sales to Taiwan. Now, they have agreed to disagree on the arms sales, but Carter dropped the second condition. I think China wanted this very badly, and that if the United States had, for example, hinted it might recognize Vietnam, that it could have gotten much more of a concession.

EIR: Was Kissinger and Brzezinski's purpose to give Southeast Asia to China as a "sphere of influence" in effect?
Hsiung: There was more to it in both the Kissingerian and Brzezinski designs. They wanted to free China of any preoccupation to the south of China — which meant under Kissinger that the Vietnam war had to be ended — in order that China's attention could be turned 100 percent northward.... They were both preoccupied with the Soviet threat. Their every impulse is to use China against the Soviet Union even if this would entail the price of sacrificing Vietnam and Taiwan.

EIR: How do you think Southeast Asia will view the U.S. retreat from Asia?
Hsiung: On the surface, they may welcome the opening of relations, but I think under the surface, there is reason to believe that the leaders of these countries are afraid that the abandoning of Taiwan by the U.S. is an indication of the U.S. readiness to retreat from that part of the world. If so, then these countries would be more vulnerable to Chinese influence which could take many different forms . . .I know of one ambassador of a Southeast Asian country who held an unprecedented luncheon with some American scholars just to get their opinions as to what may happen in light of improved relations between the U.S. and the PRC. I think that shows that there is at least

a sense of uneasiness in most Southeast Asian countries over the change in U.S. China policy.

EIR: What options does Taiwan have?
Hsiung: I think right now Taiwan is experiencing a psychological shock. But in the long run Peking will try to strangle Taiwan economically, such as by pressuring the U.S. to cease Eximbank financing, deny most favored nation status, and so forth. Then I think Peking is going to force Taiwan to come to the negotiating table.... Taiwan's future depends on the ability of its leadership to continue the status quo. In other words, keep the island in a legal limbo.... The existence of the mainlander legislators and National Assembly men elected back in 1947, who lose their legitimacy if Taiwan goes independent, ties the hands of Chiang Ching-kuo to declare independence. However, it is interesting that Chiang, in his speech the day after recognition, omitted the normal reference to the third of the "three won'ts," the "We won't declare independence" phrase. It could be a deliberate attempt to warn Peking not to press too hard, or it could be a shift in policy.

EIR: Do Kissinger and Brzezinski understand the long-term consequences of their policies?
Hsiung: Kissinger suffers from a lack of a sense of time... which was responsible for a total lack of appreciation for a possible shift in the power balance at time "n" when China will be strong enough to threaten *both* the U.S. and the Soviet Union, and there was no preparation, no anticipation of that.... I believe that Brzezinski, too, does seem to have been led on by his anti-Soviet fear in the case of China.

EIR: Do you think the inability to look at the long term is a characteristic problem of many American analysts?
Hsiung: The lack of a sense of time, the preoccupation with the present I think is the greatest problem for analysts in this country and for decision makers.

3. Asians alarmed at U.S.-China ties

A serious look at how the leaders of Southeast Asia are thinking demonstrates the folly of President Carter's latest Asian policy gambit. Contrary to Administration fantasies, it is China that Asia deeply distrusts and fears, not the Soviet Union and Vietnam. Moreover, it is a commitment to economic development and regional stability that Southeast Asia wants from the United States, not geopolitical card tricks.

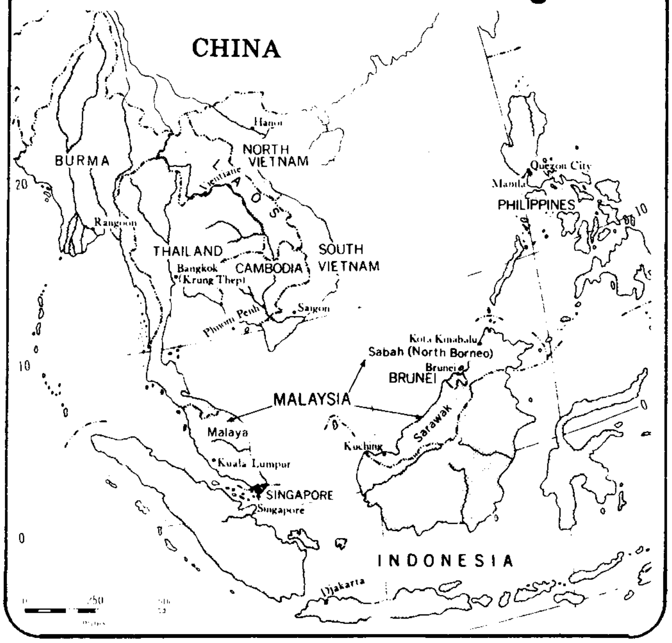
The countries of Southeast Asia view with alarm the "new era" of friendship between Washington and Peking, because they see in this friendship the implementation of Henry Kissinger's well-known scheme to grant China a "sphere of influence" in Asia as a strategic counterweight to the Soviet Union. While not opposed on principle to an improvement in relations between Washington and Peking, the fiercely independent Southeast Asians fear that the new agreement has given China tremendous political leverage to pursue its well-known ambition to be the dominant power in the region.

It is widely thought that the first signs of China's new "status" in the area will be heavy pressure on the countries of Southeast Asia to isolate Vietnam and cut off relations with the Soviet Union. Countries such as Indonesia and Malaysia, who have bitter memories of previous Chinese attempts to dominate their countries, will view these pressures as drastic threats to their sovereignty, but are quite vulnerable nonetheless due to such important political levers as the overseas Chinese business community throughout Southeast Asia. The latter still owns an incredible 90 percent of the business enterprises in the region, and are widely recognized to be instruments for Chinese policies. They maintain extensive contacts with the Bank of China and Hong Kong-based British banks.

In the past, the countries of Southeast Asia viewed the United States as a counterweight to threats to their independence from China. Now, they feel, the "China card" policy of Mr. Brzezinski has pulled the rug out from under them, as the Carter Administration has made all other policy considerations secondary to the goal of maintaining a "strategic" relationship with Peking.

Looking at China
The region's attitude toward China was highlighted in a Dec. 15 interview in *Far Eastern Economic Review* by Indonesian Foreign Minister Mochtar Kusumaatmaja. He explained why Indonesia had refused to resume diplomatic

The Southeast Asian Region



ties to China. "When developments occurred in Vietnam," he said, "with China treating the overseas Chinese as its own, we were of course interested because that was the proof of the very question which we were so curious about. And to say the least, what happened in Vietnam with regard to the overseas Chinese did not reassure us."

Mochtar's attitude is echoed perhaps even more strongly in neighboring Malaysia, where 40 percent of the population is ethnically Chinese. When Peking's Deputy Premier Teng Hsiao-ping toured the region this fall to drum up support for China's military provocations against Vietnam, he was met with insulting coldness as machine gun-armed soldiers prevented overseas Chinese from greeting him.

Despite China's increased leverage, the nations of Southeast Asia intend to pursue economic cooperation with both Vietnam and the USSR. In fact, the withdrawal of the U.S. may lead to an even greater closeness to Vietnam and the USSR than they themselves had originally contemplated, simply to counter China. Indonesian Vice-President Adam Malik told the West German newspaper *Frankfurter Allgemeine Zeitung* Dec. 19 that a common program for the development of Vietnam by Japan and the USSR would be a good way for the latter two nations to overcome the tensions prompted by the signing of the Japan-China treaty. He added that Vietnam was interested in industrialization, not a military buildup, and that therefore, there was a good perspective for large-scale economic cooperation between Japan and the members of the Association of South East Asian Nations (ASEAN), Indonesia, Malaysia, the Philippines, Thailand, and Singapore.

Mochtar, whose trip to Vietnam coincided with Teng's tour of ASEAN, went so far in his *Far Eastern Economic Review* interview as to justify Vietnam's alliance with the USSR against China, saying, "I prefer not to use any term which denotes subservience of Vietnam to any country or intimates that Vietnam is the proxy of any country. I have had many conversations with their leaders, and I am aware of their pride and the fears since independence. So the fact that they have signed a treaty and have been obliged to receive aid is, I think, a result of circumstances. They have tried to obtain aid from other sources (including the U.S. — ed.). They have encouraged investment and trade, but not much was forthcoming .... Then there was the threat, the belligerent attitude of China .... I don't think they had much choice."

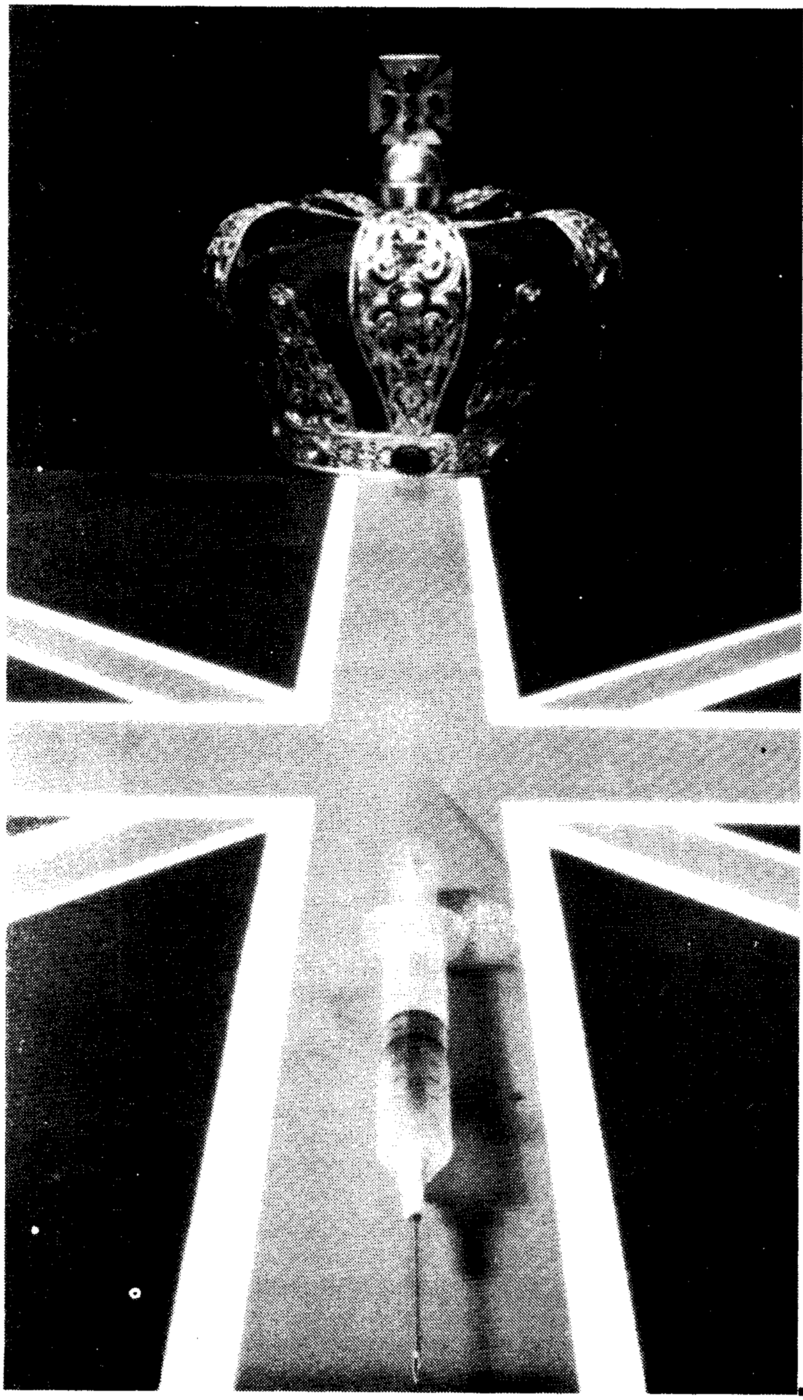
More anger against the U.S.

Meanwhile, it was further revealed this week that anger against the United States "China Card" policy is not limited to Southeast Asia, but extends as far south as India and as far north as Japan and Korea.

Indian diplomatic sources revealed that Brzezinski's National Security Council has been applying great pressure on New Delhi, as well as Indonesia and Malaysia, to improve relations with China. The timing of this pressure overlapped the period of intensive negotiating between Washington and Peking on the terms of normalization. Documents from the NSC released yesterday by the office of Sen. Jesse Helms confirmed that Brzezinksi had talked with Chinese leaders about Peking's relations with India. The Indian diplomat tersely commented, "It's easy for you Americans, with 10,000 miles of ocean between you and China, to speak of flirting with Peking. There is nothing between us and China but the Burmese jungle."

Widespread discussion has also broken out in Washington on the possibility of "unification" talks between the two Koreas as a result of the improved relations between the United States and China. One of the chief proponents of this idea is A. Doak Barnett of the Brookings Institution, the Washington-based think tank that drew up the Carter Administration's original plans for the withdrawal of U.S. troops from Korea. This, too, was part of the scheme of providing China with a "sphere of influence," and efforts by Washington and Peking to revive the stalled Korean unification talks would surely be done in such a way as to exclude the Soviet Union from the discussion process.

The final integral part of the Brookings scenario was an increased defense role in Asia for Japan, within the context of the U.S.-China alliance against the Soviet Union. Well-known Rand Corporation China "specialist" Michael Pillsbury, the first prominent American to propose selling arms to China, recently published an article on U.S.-Japan-China defense cooperation in the magazine Brzezinski used to run, *Foreign Policy*. It is now expected that the Carter Administration will be putting pressure of this sort on Tokyo.



A correction of U.S. China policy

Thus far debate over the latest unfolding of U.S. China policy has been dismally consistent with the tenor of U.S. policy making generally. Here we present a contribution intended to raise the level of discussion to the real strategic issues involved, a policy memo issued on Dec. 18 by contributing editor Lyndon H. LaRouche, Jr. In this analysis, LaRouche, the chairman of the U.S. Labor Party and one of the initiating intellectual authors of Europe's new monetary system, brings to bear years of experience in dealing with America's policy-making elites and those of Europe and the Third World.

Although the majority of the Congress, as well as this writer, desire rapid progress in "normalization" of relations with Peking, it is necessary and probable that the Congress will act to modify elements of the policy enunciated by President Jimmy Carter last Friday evening, Dec. 15. It is urgent that both the President and the Congress approach the differences over the Taiwan defense agreements issue with open minds, that we do not repeat the dismal confusion permeating the "Panama Treaties" debate in so great and important a matter as that now before us.

Although most of the facts on which I base the following, topical subsections are far more richly available to the State Department than to this writer, there is the strongest basis in evidence to presume that this memorandum will prove itself indispensable to State as a guide to the proper configuration of such facts for defining the indicated policy issues.

It is well known that the White House has been grossly misadvised on crucial included strategic features of the China package. It is well known that this bad advice has the effect of efforts to save the appearances of both the economic-monetary and geopolitical strategic doctrines associated with Henry A. Kissinger, Zbigniew Brzezinski, and James R. Schlesinger. As in the earlier case of the "Camp David" project, the President has manifestly not been informed adequately of the existence of certain flies in Dr. Kissinger's patent ointments. Fortunately, since the overall policy of "normalization" is sound, it will be sufficient to remove the flies from the ointment to arrive at a workable, sound policy of the sort which should be acceptable to both the President and the Congress.

Before turning our attention directly to the key policy issues of China policy, it is most relevant to the problematic features of the China policy to consider first the same species of problematics in the "Camp David" effort. That comparison aids us in defining the root of the flaws in the China policy as a reflection of a recurring error in the policy-formulating process.

THE REASON 'CAMP DAVID' STUCK IN THE MUD

During the autumn of 1977, U.S. approaches to a comprehensive Middle East solution were identified by President Carter's address to the United Nations Genereal Assembly and the protocol adopted by Secretary Cyrus Vance and Soviet Foreign Minister Andrei Gromyko.

Although Israeli Foreign Minister Moshe Dayan attempted to sabotage President Carter's policies through a first attempt to secure a "separate peace" with President Anwar al-Sadat, President Sadat repudiated any such separate agreement, insisting on a comprehensive settlement. During the period of President Sadat's state visit to Jerusalem, the elements of steps toward a comprehensive peace were featured in the public addresses, published protocols, and supporting public comments of the two spokesmen.

It is to be emphasized that this happier character of the negotiations was determined by the strategic environment of President Carter's UN address and the Vance-Gromyko protocol.

This 1977 process was aborted by aid of diversionary actions taken by forces inside and outside Israel. A terrorist incident was arranged to occur in Israel, and this incident was exploited as a pretext for an Israel military operation against Lebanon, an operation deployed in conjunction with the Chamounist forces within Lebanon itself. These events in Lebanon coincided with the first significant steps of U.S. Middle East policy away from the Carter UN enunciation.

In this Lebanon affair, Henry A. Kissinger's policy inputs appeared to prevail.

Not only did Kissinger support London and Tel Aviv against Secretary Rogers over the "Rogers Plan," but Kissinger supported, as NSC chief and Secretary of State, the processes leading into the 1973 war and the April 1975 launching of the Chamoun-centered bloodbath in Lebanon. Kissinger, according to officials of governments to whom Kissinger presented his policy during that period, was committed to the London policy of effecting a "tripartition" of Lebanon, and viewed the Chamounist deployment as the trigger for the scenario leading into such a partition.

Let there be no postures of incredulity on this point. In addition to a mass of intelligence collected through my immediate associates from hundreds of knowledgeable sources, I have been briefed personally by numerous key officials directly involved in this matter. This was, to use acceptable rubrics, a London-Kissinger operation.

The Kissinger policy has not changed since April 1975. It is the same policy which is currently advocated in broader terms of application by Bernard Lewis, and Mr. Lewis's British policy, of promoting "particularist" fragmentation and destabilization of governments in many developing and industrialized nations, is adopted by Mr. Kissinger. It was Kissinger's policy during the period of the Israeli invasion of Lebanon and continued to be Kissinger's policy up to a latest recent point of direct knowledge of that gentleman's views on the matter.

It was only through coordinated negotiations among France, the Soviet Union, Syria, and other nations that the London-Kissinger tripartition was not effected in the course of the Israel-Chamoun bloodbath of earlier this year.

Through Mr. Kissinger's increased influence within the Republican National Committee, as aided by coordinated deployment of the Mont Pelerin Society and the "Kennedy machine" coming to the surface during May-June 1978, several shifts within U.S. policy posture were effected, including a shift toward the policy profile which surfaced during the mid-August National Security Council meeting on the subject of the dollar crisis. It was that mid-August deliberation on the dollar crisis which set into place the final, crucial elements for implementation of the "Camp David" project.

The connection between U.S. monetary and Middle East policy is one of the crucial elements of the strategic picture which is variously unknown or grossly misunderstood in leading Administration and Congressional circles. The same lack of competent information bears directly on the current issues of China policy.

France's President Giscard d'Estaing and West Germany's Chancellor Helmut Schmidt have put the European Monetary System into operation as the seed-crystal of a new world monetary system to be elaborated over the coming two years. Although the economic and monetary motives for building such a new monetary system are exactly what President Giscard and Chancellor Schmidt profess to be the case, it is strongly to be doubted that they would have risked so brutal a confrontation with Great Britain and her cothinkers on this monetary issue, had Giscard and Schmidt not been motivated by the added judgment that building such a new monetary system was the only alternative to general thermonuclear war at some point of crisis within the medium term.

Most official U.S. circles do not yet share this view, and therefore most leading U.S. circles have yet no insight into the most profound and energetic policy thinking and strategic deployments of Giscard, Schmidt and other world leaders who share their views. The majority of those European political leaders and their trusted military advisors are convinced — and rightly so — that the British strategic doctrine of "limited nuclear warfare" currently adopted by the United States is a form of lunacy, as well as being in defiance of the ABCs of military science. The surfacing of bitter differences between West German Defense Minister Apel and London's advocates in NATO, Joseph Luns and Alexander Haig, is but one important side reflection of the same point.

Consequently, to the extent that London or Kissinger, Brzezinski, or Schlesinger are formulating the policies of the United States, U.S. policies are based axiomatically on the "brinksmanship" and "limited nuclear war" doctrines which every notable power but Britain and the United States predominantly view as incompetence and lunacy. Also, as noted, to the extent that Administration and Congress tolerate the assumptions embedded in Kissinger, Brzezinski, and Schlesinger doctrines, the Administration and Congress render themselves incapable of comprehending the world-outlooks, perceived interests, and policies of continental Europe, Japan, and many developing nations. They cannot comprehend what the true issues are in the Middle East situation.

The only comprehensive solution to the Middle East is that exemplified variously by the Eisenhower Atoms-for-Peace policy, by the "Rogers Plan," and also embedded in the current outlook of leading European policy-makers. This policy has two interdependent features:

(1) Israel must be contained absolutely within her 1967 borders, under the condition that (a) the conflicts on her borders are "dried out," and (b) efficient major-power guarantees provided.

(2) That the source of conflict in the region is neutralized through comprehensive, high-technology-vectored economic development programs which enrich Israel and her Arab neighbors. The key to this package is the establishment of an Arab Palestinian state in the occupied territories, and the reconstruction of Lebanon. Although the details of the proposed packages vary from time to time and among nations, the outlined basic conditions are the common features of direction in all such proposals.

If the EMS-linked Middle East policies are compared with the economic and monetary policies embedded in the present form of the "Camp David" proposals, the absolute difference between the two approaches is underlined. London-Kissinger propose to cement a separate Israel-Egypt agreement with a "guns, not butter" policy; the EMS-centered nations propose a comprehensive peace based on "butter, not guns."

The mid-August NSC approach to the dollar crisis can now be understood as key to the London-Kissinger approach to Israel-Egypt negotiations. Instead of a dollar-strengthening approach emphasizing high-technology exports and internal capital-intensive productive capital formation, the U.S. mid-August approach emphasized a monetary austerity which favored high-gain, short-term speculative movements, at the expense of capital flows into wealth-creating exports and capital-investment channels. In other words, the U.S. adopted the British approach to "fiscal austerity" and demonetizing the dollar — the current Henry Reuss approach — instead of the high-technology export approach consistent with the policies behind the EMS.

There is an essential coherence between the London-

Kissinger monetary policies and London-Kissinger Middle East policies. The same issue is the central, determining feature, as we shall show, of the errors in the announced China policy. In fact, London deployed its Israeli puppets on a Middle East destabilization course principally as an action aimed against the European Monetary System. By bringing the world to the edge of thermonuclear confrontation and also jeopardizing crucial petroleum supplies, the British aimed at developing the options for either blackmailing the world into abandoning the EMS, or actually launching massive world economic and monetary "chaos and confusion" by unleashing its Israeli puppets onto a "breakaway ally scenario" course of nuclear-armed military action.

Through Kissinger's influence over the Republican National Committee, combined with so-called "Zionist lobby" deployments, "Kennedy machine" actions within the Democratic Party, the Middle East destabilization was aided in the following crucial way. It was argued, variously either explicitly or in effect, that the "great genius Henry A. Kissinger" had "pushed the Soviets out of the Middle East," and that the Vance-Gromyko protocol was a "weak-kneed" posture whose result would be to lead the Soviets back in. The British aided this by activating British intelligence's Zionist networks within the Soviet Union, creating the staged performances which Senator Henry A. Jackson used to intensify the clamor over the "Soviet Jewry" issue.

In this general way, the Carter Administration and the Congress were conditioned, step by step, into the posture for the British "Camp David" project. Granted, it appears that Begin, Weizman, and Dayan have swindled President Carter shamelessly in this affair. It was inevitable that they would do just that. **That duplicity by Begin, Dayan, et al. was the intent from the beginning.**

By abandoning the Vance-Gromyko protocol, President Carter had thrown away all his essential options for bringing Israel to an actual peace agreement. The only basis on which a U.S. President can secure Israeli agreement to a peace settlement is to maintain an arrangement under which Israel is abandoned by the U.S. to Syria's ally, the USSR, under the specific condition that Israel initiates a nuclear-armed conflict in the Middle East.

Contrary to much evidence, Moshe Dayan, for one, is not entirely crazy. He is a brutal killer of the Orde Wingate tradition, like Ezer Weizman, another Wingate protege, but he does not suffer the "Masada complex." If Israel is deprived of the "breakaway ally" option, Israel will negotiate. The key is that the U.S. must define the limits of the U.S. "nuclear umbrella" as lying within the region in which Israel herself does not launch or willingly provoke a war.

For the benefit of those Congressmen who may not be adequately informed, Mr. Carter and Mr. Sadat have demanded not a single condition from Israel to which Mr. Begin did not accede at the "Camp David" proceedings. At each point the Carter Administration and Egypt have attempted to formalize terms already agreed to, Jerusalem either acts to violate "Camp David" understandings or simply throws a diplomatic tantrum with aid of the Israeli cabinet and Knesset. Israel takes every concession Sadat and Carter offer, but has refused to deliver a single pre-agreed-on concession of her own.

President Carter has been repeatedly swindled by Messers Begin, Dayan, Weizman et al.

Everything Brzezinski et al. assured the President would occur through "Camp David" — Jordanian support, Saudi support, and so forth — has not materialized, **and could not have materialized.** Moreover, the Soviet position in the Middle East, barring an Egypt whose President Sadat has been monstrously weakened by the developments, is stronger than during Nasser's lifetime. **Dr. Henry A. Kissinger is no infallible genius.**

London and Kissinger have proceeded to attempt to destabilize the Shahanshah of Iran — without whom Iran is an ungovernable ulcer of perpetual chaos — and now also to destabilize the Saudi government.

THE FUNDAMENTAL PROBLEM OF U.S. FOREIGN POLICY

The root-problem of current U.S. policy making in the Middle East, Far East, Africa, Latin America, the Asian subcontinent, and Europe is that the U.S. has in fact no true foreign policy. President Franklin D. Roosevelt was building a postwar policy during the last war, an essentially sound policy. President Eisenhower's Atoms-for-Peace policy reflected a true foreign-policy impulse within his Administration — despite John Foster Dulles. President John F. Kennedy was engaged in promising steps toward a true foreign policy during the months preceding his assassination. Secretary William D. Rogers represented a true foreign-policy thrust corresponding to our nation's vital interests. Since Secretary Rogers's retirement, the United States presidency and State Department have been monstrously undercut in even their ability to develop and maintain a true foreign policy.

What we have currently is a stew into which various cooks dump their own ingredients each moment the other cooks' backs are turned.

The toleration of this ugly problem is aggravated through the influence of those "revisionist" schools of history and law which have proliferated in our schools and mass media since the assassination of President William McKinley. Although the overwhelming majority of our citizens maintain their "organic" commitments to those principles of progress and natural law on which our nation was founded, the vile "revisionists' " slandering of our Constitution and founding fathers has weakened the power of most of our citizens to comprehend those policy principles on which our nation and its greatness continue to depend.

A true foreign policy is based on defining the way in which the world must be ordered to secure the goals of progress and security to our people and their posterity. We must develop our power and influence to this purpose, and must apply that power and influence to the balance in the affairs among nations in such a way that the desired result is favored.

What we should seek is that which our founding fathers sought, to rid the world of the last vestige of "British-style" oligarchical power, and to encourage the process by which all nations are set on the road to becoming true republics dedicated to securing the benefits of generalized scientific and technological progress for their own people.

This is not accomplished by "sending in the Marines" to impose a parody of our institutions and constitution top-down. It is accomplished chiefly by fostering scientific and technological progress through channels of world trade, by creating a global climate of scientific and technological progress. As the outlook and benefits of progress shape the environment and outlook of nations and their peoples, we may be confident that those nations, those people will tolerate nothing less than that republican order which progress nurtures and demands.

This foreign policy properly defines our allies and our adversaries. Our allies are those nations and political forces which have a policy of generalized scientific and technological progress for the world. Our adversaries are those who seek to frustrate such progress, and to make war on us by various military or nonmilitary means, to prevent us from pursuing our course.

During the course of this century, our foreign policy has turned increasingly away from John Quincy Adams and Lincoln's course. The central feature of this change is the deepening of a special relationship with the United Kingdom. The British have to this date the same doctrine of law, the same foreign-policy outlook which our forefathers opposed in making war against the British monarchy, and in establishing our nation as a democratic republic based on principles opposite to those of Britain. The British ruling circles, which continue to determine policies for that nation. are an oligarchical caste of great monetary power in the world, a "Malthusian" caste which is determined to establish a world order in which generalized scientific and technological progress is aborted.

The influence of anglophilia has become so strong within powerful policy-making and other institutions that U.S. foreign policy — and domestic policy as well — represents a hodge-podge of compromises between American conceptions of self-interest in general progress and an anglophile outlook which seeks to transform our laws, our policies, and our outlooks into conformity with that of the ruling British oligarchy.

This point is underlined by examining the context of the best efforts at developing a true foreign policy over recent decades. President Roosevelt's post-war policy outlines were not only directly contrary to those of Winston Churchill, but were posed in terms of a direct confrontation between Roosevelt and Churchill on these issues. President Eisenhower's Atoms-for-Peace effort was not only opposed violently by the British, but the government of Anthony Eden launched a joint British-French-Israeli military attack on Egypt to the purpose of wrecking Eisenhower's policy. President Kennedy's 1963 efforts were met with bitter opposition from Harold MacMillan. It was Kissinger, working closely with London, who sabotaged Secretary Rogers's efforts, and London, with aid from Kissinger, who set up the Middle East war of 1973 to the purpose of wrecking Nixon's efforts, as Eden had launched an earlier war attempt to wreck Eisenhower's policy.

The result of combined direct British influence and the described hodge-podge character of policy-making inputs within our establishment is that we lack any positive definitions of foreign policy corresponding to the definitions of vital national interests on which our nation was founded. Lacking a positive approach to policy making, we are left only with a negative approach. We define our policy essentially on the basis of assuming that whatever injures the Soviet power and influence must therefore be — often, in some mysterious fashion — an advantage to the U.S.A. That, in general, has been the most frequent rhetorical basis on which foreign-policy proposals have been negotiated through the Executive and Congress.

This negativism leads frequently, and not surprisingly, to absurdities of the sort witnessed in the "Camp David" debacle and the atrocious writing-off of defense agreements with Taiwan. In the Middle East, it is assumed that Israel is the U.S.-British power-surrogate, and therefore that anything which strengthens Israel must (if gained at minimal cost to U.S. Arab petroleum interests) automatically serve U.S. interests. In the Far East, it is now widely assumed, we must pay almost any price to secure a de facto anti-Soviet alliance with Peking, with the stated or at least implicit assumption that all good things will automatically flow from the realization of that de facto anti-Soviet alliance.

We have just experienced a sharp rise in petroleum prices in the Middle East — a direct consequence of our complicity in projected destabilizations of both Iran and Saudi Arabia as well as the clinging overlong to a "Camp David" debacle. If the Taiwan and Cambodia errors of the China policy are not quickly corrected, the United States will jeopardize every vital interest in Japan and Southeast Asia, and severely injure U.S. interests and options in the subcontinent, the Middle East, and Africa.

To recapitulate this point. It can not be assumed that an anti-Soviet Israel policy or an anti-Soviet China policy automatically tilts the balance in favor of U.S. major interests in the affected regions or in the strategic global configuration. We should have learned this lesson from the "Camp David" debacle; we had better learn the lesson quickly before the attached errors of the China policy lead to a worse debacle.

We must approach Israeli policy from the standpoint of the positive interests affected by Israeli policy. We must first define our vital interests in the Pacific and Indian Ocean region before plunging blindly into the detailed elaboration of a China policy.

These two cited problem cases intersect a third: our European policy. We have reached the point at which we must choose between Britain and the EMS powers. We must choose France and West Germany, in preference to the United Kingdom, as our nation's primary allies. It is the continental European nations and Japan who have helped save the value of the dollar, and who will continue to be the only powers with the policies and abilities to aid our domestic and foreign interests over the decade ahead. We must choose; either we sink with Britain, or we rise again to prosperity with our EMS-centered allies.

Together with our EMS-centered allies, and with allies such as the government of Mexico, we must define the kind of world we are going to create over the next half-century. Happily, with the present Brezhnev policy and Brezhnev-Schmidt treaties, the Soviets are prepared to enter into comprehensive agreements for both economic and political cooperation in the developing sector, agreements beyond the "wildest dreams" of U.S. officials a few years back. While retaining our nation's independent power and other capabilities, we must define a positive, true foreign policy.

THE PROFILE OF CHINA POLICY

Senators Goldwater and Dole are right as far as they have gone publicly in expressing abhorrence of and opposition to the abrogation of the Taiwan defense agreements. It is to be emphasized that no power abrogates such agreements under such circumstances in such a fashion. So far, the criticisms of the actions which, ostensibly, Brzezinski and Schlesinger imposed upon President Carter represent only the tip of the iceberg in the matter. The critics have not yet publicly noted the deeper and broader strategic implications of Taiwan.

Our proper approach to "normalization" of relations with the Peking government can be systematically defined by examining first the strategic implications of Taiwan.

Taiwan is not historically part of China

Whoever informed President Carter that Taiwan is historically a part of China is either ignorant of the bare essentials of Far Eastern history or was simply lying. Apart from Japan's assimilation of the island as Formosa and the awarding of Taiwan to the Kuomintang government as victor's booty at the close of the last war, Taiwan, although influenced by Chinese culture and trade, was an independent nation.

It is always bad business for a major power to engage in rewriting history for the sake of the appearances of some short-run expediency. Worse is what James R. Schlesinger argued in a mid-1960s Rand Corp. paper: the essence of lying as political policy is the trick of not actually getting caught. If Mr. Schlesinger had a part in inserting this element into the Carter address, Mr. Schlesinger has forgotten the principles on which his policy of lying was advocated earlier. Every nation in the world knows, to our national shame, that the "historicity" of Peking's claims to Taiwan is sheer fabrication.

Peking's view on the Taiwan question has several levels. At first, there was the fact that Taiwan was a Kuomintang base for a threatened, U.S.-backed invasion of China. There was also a matter of pride: the allies have given Taiwan to China as victor's booty, and whatever the U.S. would give to Chiang Kai-Shek, Peking demanded as a matter of its acquisition of power. Subsequently, since Peking has indoctrinated its population with the Taiwan issue to the point of making the matter a national obsession, it is difficult for Peking's leaders to explain now that the entire propaganda campaign was simply part of a strategic gambit.

From the U.S. side, the whole business is indecent as well as dubious. The Congress ought to knock this atrocious feature of the policy out, and the quicker the better.

The Japan implications

The larger, strategic enormity of the Taiwan issue is brought into focus in connection with Japan and the Republic of Korea. The significance of Peking's acquisition of Taiwan is a major, deadly blow to the vital strategic interests of the Japanese economy and Japan's internal political stability. The Republic of Korea, although fiercely nationalist with respect to Japan, has the same vectors of self-interest as Japan; a Far East policy that injures Japan's interest also injures the vital interests of Korea.

There are, historically, two policy currents within Japan to date. One policy current is associated with the Meiji Restoration, a current which used such American economists as Hamilton, the Careys, and Germany's Friedrich List as the sources for developing Japan's economic-miracle policies. This faction is otherwise represented within the "Go South" faction. The opposing faction is the pro-British faction, associated with the Mitsui interests. This faction is mercantilist, rather than industrializing, in emphasis, and could be fairly described as leaning toward Adam Smith, and as rejecting the American economic outlook of Hamilton et al. When the Mitsui-linked tendency is dominant, Japan's strategic impulse is toward a military "Go North" thrust for conflict with the Soviet Union.

The leading policy of the "Go South" current is the export of knowledge ("technology transfer"), and emphasizes economic cooperation and trade rather than military thrusts. This is the aspect of Japan which makes it, together with Mexico, the proper primary ally of the United States for the Pacific region, and the proper ally of the United States for economic development ventures in the Indian Ocean region and Southeast Asia.

We are speaking of a half-billion people in Southeast Asia, and approximately a billion in the Indian Ocean region. U.S. in-sight opportunities for economic-development roles in China are small compared with the vast opportunities to be shared with Japan and others in Southeast Asia and the Indian Ocean region.

Granted, the present Prime Minister of Japan is considered a Mitsui-linked figure. However Mr. Ohira heads presently a very weak government, whose deviation from dominant Japanese policy hangs on the margin of present conflict between Mr. Tanaka's and Mr. Fukuda's factional forces. Mr. Ohira may be quite tolerant for the moment on the Taiwan issue, but it will not be long before either he or other leading forces in Japan come to the strategic assessment outlined here.

Why that will be the case within Japan will be made clearer as this report turns now to the issue of Hong Kong.

The Hong Kong connection

Just as Japan has two dominant currents, so does China. One, the "New China" current, is based sociologically in the industrial-urban and military forces, the impulse for pulling China out of millennia of rural backwardness and bestialization. The opposing current, with unbroken affinities for British intelligence since the Green Gang days, leans toward "Old China," and is sociologically rooted in rural backwardness, plus the oligarchical (Mandarin) traditions of bureaucratic strata.

The U.S.'s self-interested policy toward China is that which corresponds to the actual internal interests of China itself. Our self-interested policy emphasizes providing China with expanded high-technology industrial development. By enabling China to increase the productive powers and output of its labor force, and to improve the export quality of sectors of its production, China's rate of economic growth is improved, and the nation's capacity for buying expanded volumes of high-technology imports is self-expanded.

The British policy is opposed to this. The British view China chiefly as a market for finished goods, with a strong emphasis on armaments. The British are opposed to any technological progress in China but that kind and amount deemed required for British geopolitical purposes.

We cannot meddle in the internal factional processes within China, and must avoid even the appearance of an intent to meddle. We cannot, however, blind ourselves to the fact that China's internal processes do determine her foreign-policy outlook in ways of decisive importance for our interests throughout the Pacific and India Ocean region. It is the "Old China"-leaning faction which is linked to British policy (and intelligence services) through the Hong Kong drug connection. It is the opposing, "New China" currents, those oriented to high-technology transformation of that nation, which are a durable treaty partner for the United States, Japan, and the EMS powers.

Worse, the "Old China"-Hong Kong interconnection is the instrumentality through which Peking continues to perpetuate atrocities against our allies throughout Southeast Asia and the Indian Ocean region. This is the facet of Anglo-Peking operations which floods the world with the major portion of the illegal opium traffic. Are we prepared to trade away the vital interests of our ally Japan, and to write off a half-billion people of Southeast Asia, merely to strengthen the relative position of the "Old China" faction at the expense of "New China" forces?

It is the British intelligence and Chinese foreign intelligence which deploy the terrorist-guerrilla ulcer in the Philippines. In each country in Southeast Asia, it is the same British-Chao Chou gangs which are key to destabilizations and harassments. In Burma, Bangladesh, India, Pakistan, Iran, Afghanistan, Yemen, and African nations, the same type of problem is significant.

We shall omit cataloguing innumerable cases to the same effect in Latin America.

In sum, Peking's concessions to us should be closing down its complicity in the drug traffic and closing down the Hong Kong-linked nastinesses of its foreign intelligence service.

The British will not agree with us on this, of course. No matter; the sick economy of the United Kingdom has no economic capability, except as a gold, opium, diamonds and arms dealer in the entire Indian Ocean-Pacific region. They should withdraw quietly from any pretense at a significant role in those regions.

We must concentrate on bypassing Hong Kong, developing direct U.S. links with China in cooperation, most emphatically, with Japan and the Philippines. Communications satellites are obvious early measures. Advanced technological bases developed in Japan and Korea, and with the cooperation of the Philippine government, will serve multiple purposes. It will enable us to more directly service technology-transfer into China, and will simultaneously strengthen our ability to service the Southeast Asia and subcontinent regions.

Three leading courses of action are open to, variously, the Congress and the Administration. First, the Congress should enforce the nonabrogation of the Taiwan defense treaty, and the Administration should gracefully bow to the will of the Congress on this point. Second, the de facto underwriting of the hideous Cambodian regime should be reversed immediately under the "human rights" provisions of Congressional and Administration policies. Third, the Hong Kong-linked drug traffic should be shut down with aid of a quarantining of Hong Kong itself.

These three actions will create the negotiations options for plucking the flies out of Dr. Kissinger's patent ointment.

General policy

The question of economic relations with China cannot be separated competently from the process of generating the flow of long-term, appropriately priced credit for this trade. The EMS and the Tokyo market are the principal instruments through which medium to long-term credit for hard-commodity traffic can be generated through diverting (cumulatively) about a half-trillion dollars in churning liquidity into such credit channels. The sustaining of credits for China economic cooperation should be developed within that framework.

Therefore, the general framework within which implementation and development of China policy should be pursued is a firm commitment of the U.S. to the process of developing a new world monetary system, premised on gold-reserve principles, around the seed-crystal of the European Monetary System. This defines our Atlantic connection to EMS-centered development generally, and to the EMS-Japan interface with China cooperation in particular. Our Pacific channels of economic cooperation with China then dovetail with our general cooperation with the EMS-Japan programs.

The EMS's global strategy unfolds

But the U.S. remains mired in the recession obsession

The Dec. 13 announcement of Irish Prime Minister Jack Lynch that his country would be entering the European Monetary System (EMS) as a founding member beginning Jan. 1 tightened the noose around Britain's neck and left London exposed as the new system's isolated opponent.

Lynch told the Irish Parliament that his decision was "an act of trust" in the European Community, made easy by the fact that the Italian government of Prime Minister Giulio Andreotti had committed Italy to joining the new monetary system just days earlier.

London's reaction was typified by the Dec. 17 editorial comment of the *Daily Telegraph:* "The about-turn by Italy and Ireland has turned last week's defeat into this week's triumph and has abundantly restored the reputations of (the EMS co-founders, West German) Chancellor Helmut Schmidt and (French President) Giscard d'Estaing," making Britain's position "look even more friendless — and perhaps now untenable for any length of time."

British response to the Irish decision was to unleash a terror wave against the Irish community in the UK, through the instrument of the British intelligence-controlled Irish Republican Army. Five British cities with large Catholic populations were placed under virtual military occupation to deal with what Scotland Yard confidently predicted was the beginning of the IRA's "winter terrorist offensive." These included Liverpool, Manchester, Southampton, Bristol, and Coventry business districts.

Use of the terrorist weapon, however, has not succeeded in changing Ireland's decision to break its ties with the moribund pound sterling. Instead, Dublin announced extensive exchange control measures that will have the effect of drawing Irish money out of London. As Prime Minister Lynch told the Irish Parliament, joining the EMS is necessary for Ireland if it is to "enhance the prospects for trade and investment" and enable the country to become a highly industrialized economy.

This was a striking reference by Lynch to the actual role of the EMS as a world strategy for dramatically increasing net international trade, most clearly revealed in the remarkable 100-point program of President Giscard's Union for French Democracy (UDF) coalition. The program calls for the creation of a $100 billion European Community loan program to both finance investments in Europe and to serve as a large-scale "European Marshall Plan" for the developing sector. The remaining points of the UDF proposal outline a strategy for French and global industrial development that would put an end to the unrelenting austerity packages which have stagnated the international economy.

As detailed below, the French government is already in the process of implementing the politico-economic EMS strategy encapsulated in the UDF program, as indicated by the recent ten-year oil-for-technology deal with Mexico and particularly by Giscard's Africa policy. The French President left for Guinea Dec. 20 to personally implement the French plan for regional development of West Africa in cooperation with the Soviet Union, in accordance with the Franco-Soviet agreement to stabilize the African continent worked out in Moscow last August.

Confusion in the U.S.

Although little understood and less commented on within the American press in particular, it is precisely the strategic content of the EMS typified by the UDF program which, for example, enabled the Soviets to nod at the U.S. China maneuver rather than respond with profiled denunciations that would have endangered the SALT treaty. But little of the global import of the EMS and its related political implications have found their way into the American press or the boardrooms of U.S. industry. As a result, much of the American business community appears confused and unable to make a definitive response to major international events. This is in turn mirrored in government policymaking. It is this highly unusual situation which the *Executive Intelligence* Review is attempting to correct by sponsoring a series of business seminars throughout the country on the reality of the EMS and its implications.

At present, beneath the continuing disorientation, there is a harsh faction fight underway in banking circles and related layers. The Reuss-Kennedy machine, for example, is following the straight London line of opposition to the EMS. Congressman Henry Reuss, speaking at subcommittee hearings of the Joint Economic Committee on Dec. 14, was forthright in echoing the Bank of England's argument that the reserve role of the dollar must be "gradually relinquished" in favor of the International Monetary Fund's "enlarged and rechristened" special drawing rights. Not accidentally, Reuss is on record as opposing the EMS, whose cofounders have repeatedly insisted will function to strengthen the international reserve role of the dollar as the only adequate instrument for the realization of the EMS's global development goals. In a similar vein, Business Round Table chairman Irving Shapiro warned President Carter after the latter's address to the Business Council Dec. 13 that he would be assured of business support only insofar as the Administration stays in line with its wage-slashing, budget-cutting "anti-inflation" program.

The vacillation generated in Administration layers by such warnings on the one hand, and the promise to American industry held out by the EMS on the other, is reflected in the recent statements of Treasury Secretary Michael Blumenthal and Federal Reserve chairman G. William Miller. Testifying at the Joint Economic Committee hearings, Blumenthal was forced to praise the EMS as a "positive factor" while simultaneously supporting an austerity package for the U.S. economy. Miller joined Blumenthal in reversing his opposition to the EMS and dollar support in a speech to the prestigious Atlantic Bridge meeting in Frankfurt Dec. 12, dubbing the European Monetary System a "constructive approach toward greater monetary stability....All of us stand to benefit." But a week later, however, the Fed allowed the Fed funds rate to climb by another one-eighth percent.

—Vivian Zoakos

France defines 'EMS' as

Last week's proposal by the coalition of political parties backing French President Giscard d'Estaing for a $100 billion European Economic Community development fund has set the stage for bold new initiatives from France. The proposal, coming from sources close to the French government at the highest level, illustrates the real thinking behind the new European Monetary System (EMS) and, by offering the various social forces and trade unionists in France a deal they can't refuse, frees the government to bring its global grand design strategy to fruition.

French Foreign Trade Minister Jean-Francois Deniau, speaking as President of the European committee of the UDF (Union pour la Democratie Francaise), announced on Dec. 12 a 100-point program which revolves around the plan for a $100 billion fund to finance industrial development in Europe and an increase in living standards in the developing sector. It also includes a series of social measures which are not only based on demands already put forward by France's trade unions, but are also neces-

$100 billion program for peace and progress

On Dec. 12 French Minister for Foreign Trade Jean-Francois Deniau addressed a meeting of the leadership of the UDF coalition of progovernment political parties. Deniau was speaking as the President of the UDF's European commission, announcing a 100-point program which the UDF, after ratification at its February congress, will use as its platform and program for the European Assembly elections in June 1979. Here are portions of his speech.

The goal of the program presented is "a strong, prosperous and respected France, in an organized and independent Europe which is at the same time a guarantee against war, a response to our economic and social needs, and an insurance for democracy and liberty." These are the conditions necessary for the emergence of "a new European civilization."

"The election by universal suffrage will permit the European Assembly to exert its powers with an increased authority. These limited powers will not be substituted to those of our national Parliament, nor go beyond those assigned to it by the constitutional treaties of the EEC, but these powers will nonetheless be real and important for our country, our economy and our future. . . .

"We reject the bureaucratic superstate. Our conception is that of a confederated Europe in which the European Council sets the orientations of the Community with respect for the sovereignty of the States . . ."

Reading from the program and commenting on it, Deniau said that it proposes "that the nine member governments of the Community launch a development plan for employment by investing together over five years sums which could amount to 500 billion francs."

"Half of these sums would come from national efforts coordinated on the European level, the other half from community loans, the community itself borrowing these sums on the basis of the credit (collateral — ed.) provided by the considerable monetary reserves of its members. These loans, denominated in ECUs, would be retroceded to the member countries and would serve to finance a vast program of industrial, regional, and infrastructural investments on the European scale (for example the tunnel under the Channel, completion of the modernization of the waterway liaison between the Mediterranean and the North Sea) which present a particular interest from the standpoint of employment."

Deniau added that this 500 billion franc program would serve to promote progress and modernization in the developing countries. "It would be a credit policy to ensure a relaunching of orders, a sort of Marshall Plan which would aim to increase the standard of living and sary prerequisites for raising the quality of labor power required by this bold development perspective. The UDF, an electoral coalition that includes Giscard's Republican Party, the centrist CDS Party, the Club Perspectives et Realites, and several other small political formations, will be called on to ratify this program at their February congress, and to use it as their electoral platform for the June 1979 European Assembly elections.

It is this sort of program for economic development, directed from the top down rather than left to the heteronomic forces of "free enterprise," that will enable the appropriate forces within the political parties of France to rid themselves of the empty recipes currently passing for economic policy.

This particularly applies to the Gaullist party (RPR) of Paris Mayor Jacques Chirac, who threw the French political scene into an uproar earlier this month with his declaration of war against Giscard's European policy and France's closest political ally, West Germany. While Chirac's demagogery was immediately the product of the political ambitions he nourishes for the presidential elections, he played masterfully upon the legitimate — but uninformed — fears of his party's large peasant and farmer base.

These layers, which operate the many small family-based farms of southern France, fear an "invasion" of low-priced agricultural commodities from Spain, Greece and Portugal, as well as the removal of certain price support mechanisms which have kept French food prices artificially high. But the solution is not contained in the xenophobic ravings of Jacques Chirac, but in a program which the vast majority of the Gaullist party would support, entailing debt-relief and special financial incentives for increased levels of modernization and capital investment for mechanization.

In recent speeches, Foreign Affairs Minister Jean Francois-Poncet has indicated that part of his government's motivation for accelerating the time-table for

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the buying power of the countries toward which Europe could export part of its production."

The program also calls for the creation of European research centers and the reinforcement of collaboration in the area of "industries of the future."

He stressed in conclusion that "Europe is not aimed at substituting itself to the States, but to bring them something supplementary. (It will be) neither a satellite of the Soviet Union, nor an annex of the United States."

A world arena for France's capacities

French Foreign Affairs Minister Jean-Francois Poncet motivates the enlargement of the EC to include Spain, Portugal and Greece as members before the French Senate Dec. 16:

. . . Our interest lies in making the transition period (for entry) as short as possible to allow our industries to rapidly take a foothold in the markets of those three countries which have 54 million consumers, and which are undergoing rapid development . . . Besides, the renovation of our industrial and technological apparatus in the concerned sectors is clearly required in any case, so the enlargement represents an opportunity for our industry. The situation is different for our agriculture, but there too the prospects are much less somber than it is sometimes said. Provided certain measures are taken, the agricultural prospects are rather encouraging. . . .

First of all, the enlargement will favor an increase in the standard of living of the newcomers whose consumption will expand and diversify itself. The example of Italy shows this. The latter was practically self-sufficient in 1958. In the span of 20 years, because of its participation in the Community, and the great increase in the consumption of meat products that resulted from it, and in spite of significant progress made in her own agriculture, she hasn't been able to meet her new needs. The result has been that our sales of livestock and dairy products to Italy have increased from 285 million francs in 1965 to 4 billion now.

In this ensemble to be constituted by a confederated Europe, France will be able to deploy her influence without losing any of her own capacity for the independent initiatives which result from our world vocation. United with her partners for a world of prosperity and justice, without ever ceasing to be herself, she will thus set the example of solidarity and independence. For this to take shape, Frenchmen must not have doubts about themselves or their country and those who put so much ardor in their patriotism ought to put at least as much confidence in France's capacity to be herself in Europe.

broadening the southern rim of the European Community lies in the challenge this will pose for French industry and agriculture (*see excerpts on page 27*).

The French Communist Party (PCF) of Georges Marchais, aping the most backward aspects of Chirac's nationalism, has meanwhile called for a European-wide mobilization of peasants and workers against a "Europe dominated by German imperialism," thus becoming a pawn of forces, led by the British, who oppose the EMS and its grand design. The fact that the PCF's coffers are lined by the Rothschild-allied wine-grower millionaire Jean-Baptiste Doumeng is not accidental to the party's current posture.

The type of program put forward by Deniau in the name of the UDF, with the addition of a more elaborated agricultural component, should permit a broad cross-party factionalization to occur such that Giscard emerges with a clear mandate. Numerous indications already point to Chirac's isolation on this issue; he has already attempted to retreat from his earlier statements, claiming that his remarks were misinterpreted by the press. The program also constitutes an urgently needed indication of Giscard's disenchantment with the Darwinian "free-enterprise" plan of Premier Raymond Barre.

The organization of Europe around the EMS, what Helmut Schmidt has termed the creation of a "superpower for peace," has been thoroughly discussed in the cirlces in and around Giscard's Republican Party. Leading figures in the party have defined the urgent necessity of implementing the EMS in terms of the need to avert the dangers created by the "tactical nuclear warfare" doctrine of Alexander Haig and Zbigniew Brzezinski. Moreover, they regard Giscard's role as that of the legitimate heir of Charles de Gaulle, defined as a strategist whose approach was based on French leadership in a sovereign, united, and confederated Europe.

And the French role in this Europe is to mediate a global policy in the interests of peace, working through detente with the Soviet Union, in Africa, the Middle East, and Latin America.

The just-ended trip to Western Africa of State Secretary for Foreign Affairs Olivier Stirn, Giscard's current state visit to Guinea and the preparations leading up to Giscard's planned trip to Mexico in February verify this role. Stirn's successful meetings with the leaders of several English-speaking African nations is a significant breakthrough for France, whose influence has traditionally been limited to the French-speaking nations of Africa.

— *Dana Sloan*

The problems with

At a time when so much hangs on the emergence of rational thinking in U.S. economic policy circles, current debate in the U.S. on the key issues of dollar stability and U.S. policy concerning the European Monetary System is dominated by a stale set of Hobson's choices. The debate is being conducted between the self-described advocates of a strong dollar, who insist on "defending the dollar" through economically debilitating high interest rates and belt tightening, and Kennedy machine "liberals" who assail the Administration's Nov. 1 dollar support package for costing the nation needed social programs and who instead advocate immediate implementation of International Monetary Fund-directed "reflation" and austerity.

Hearings held Dec. 14 by the international economics subcommittee of the Joint Economic Committee of Congress on "The Dollar Rescue Operations and Their Domestic Implications" provided the well-publicized stage for both sides in the controversy to air their views. Treasury Secretary W. Michael Blumenthal, who bears a special, personal responsibility for the steep decline in the dollar over the last year and a half, testified on behalf of the Administration's dollar-support measures and its ever-tighter monetary policy. In Blumenthal's rendition of the matter, the Nov. 1 actions — which established a $30 billion kitty of credit lines with the Europeans and Japanese and other funds for currency intervention — were a follow-up to the wage-price guidelines announced by President Carter in late October and the overall austerity of current Administration economic policy. The Treasury Secretary, in other words, advocated the position of defending the dollar through killing the U.S. economy.

To those who remember speech after speech in which Blumenthal told the foreign exchange markets that the widening U.S. trade deficit and depreciating dollar were no cause for concern, his remarks before the JEC on the negative repercussions of the trade deficit and falling dollar were most ironical. But unfortunately for U.S. policymaking, Blumenthal's conversion reflects the confusion of economic policy advisors throughout the Administration. Blumenthal went on to admit that a new "feedback" mechanism is operative, whereby depreciation of the dollar has resulted in higher prices for imports, leading to higher prices for domestic products competing with foreign goods, more inflation, further weakness in the dollar, and so forth. Blumenthal estimated that as much as one full percentage point of U.S. inflation this year reflects the effects stemming from the depreciation of the dollar, but he failed to mention his own leading role in "talking down the dollar." Blumenthal, in fact, sharply rebuked "those who feel that continuing decline in the dollar is good for trade."

On the question of the EMS, Blumenthal favorably endorsed the new monetary system as a means to "greater stability in Europe," but he predicted a "gradual" and "orderly" evolution away from the dollar's leading reserve currency role — a formulation influenced by the British strategy of turning the EMS into an antidollar, austerity-based regional currency bloc and creating a central role for the ECU (European Currency Unit) in international reserve transactions. However, bowing to an array of American and international business pressures, the Treasury Secretary concluded that "the dollar will continue to play an important role in international monetary relationships for the forseeable future, if the world is to continue to achieve growth and progress."

Congressman Henry Reuss (D-Wisc.), cochairman of the JEC subcommittee on international economics, mimicked the recent statements of British Chancellor of the Exchequer Dennis Healey. Reuss opened the hearings with an attack on the dollar rescue program and the domestic anti-inflation program for running the risk of recession and igniting "civil strife" in Newark, Cleveland, Detroit, Los Angeles, etc. Taken at face value, Reuss's criticisms of the Administration's economic policy might appear to be sound. "Higher interest rates, it is argued, will lure foreign capital here and thus improve our balance of payments," said Reuss. "It seems much more likely that an unnecessarily tight money policy will seriously slow down research and development, and investment in plant and equipment—both needed for increased productivity, which in turn is the soundest method of fighting inflation."

A closer examination of Reuss' demagogic pitch, however, reveals that he is playing the same role that he did in the midst of the 1971 dollar turmoil, when he helped trigger the August 15 crisis by "predicting" that the U.S. would have to sever the weakening dollar from its gold backing and phase out the dollar's role as the principal international reserve asset. Reuss's current recommendations that monetary tightness should be confined to fighting domestic inflation and the self-defeating high-interest rate "dollar defense" program be dropped, should be read as a call to abandon the U.S. dollar to free fall on the foreign exchange markets.

The specifically Healeyite bent of Reuss's remarks was expanded in his recommendations on international monetary reform, one of the Congressman's pet interests. Reuss endorsed the proposal of Governor Xenophon Zolotas of the Bank of Greece for issuing medium-term dollar-denominated Treasury securities to the Eurodollar banks and thereby "sterilizing" the volatile $700 billion overhang in the Eurodollar market. The intention of this proposal is directly contrary to the Bank of Japan's Eurodollar market "consolidation" plan, which involves not sterilizing the dollar liquidity but rechanneling it into productive loans for Third World development, thereby strengthening the dollar.

As the second element in his antidollar program, Reuss called on the U.S. to take the lead at the January Guadeloupe summit and in other international forums in promoting the relinquishing of the dollar's key reserve currency role and adopting "a basket-of-currencies unit under the aegis of a reinvigorated IMF." According to Reuss, the introduction of a second international reserve currency to supplement the dollar is a way of taking pressure off the dollar and shutting down the dollar printing press that has tempted us to "live and invest beyond our means." Reuss's aim is to subordinate all national currencies and credit policies to IMF dictatorship, subjecting advanced sector economies to the same IMF austerity policies that have debilitated the Third World.

"What is needed is some sort of substitution account in the IMF whereby foreign monetary authorities not wishing to hold so many dollars may turn in their unwanted dollars for enlarged and rechristened special drawing rights," said Reuss. The SDRs must be rechristened because the IMF's fiat money is discredited, and has now been upstaged by the explicitly anti-IMF European Monetary System, whose aim is to stabilize currencies through revived production, not austerity.

The great misconception, promoted by the confused Blumenthal and furthered by Reuss and the entire British-IMF crowd, is that the world economy is poised between two alternatives: run-away inflation and currency chaos or recession and stability. In issuing the economic forecast Dec. 14 of the Business Council of which he is vice chairman, duPont chairman Irving Shapiro commented. "The prospect of slower growth next year isn't bad news but is exactly the medicine our economists have said the country needs at this time." Echoing the same line that Blumenthal was delivering at the JEC hearings, Shapiro praised the Administration's Nov. 1 actions as a major step toward imposing discipline in the economy and egged President Carter on to greater feats of political suicide: "We can live with slower economic growth in 1979 and 1980 — even a mild recession — but we cannot afford the consequences of a reversal of the policies now in place," said Shapiro. "One must hope that the resolve of the administration will be a match for the pressures that are certain to appear next year."

The prevailing fantasy in the U.S. business community–which British-influenced U.S. policymakers like Reuss, and Shapiro play on — is that the economy must be put through a recession to knock out chronic inflation; only then can the process of capital formation recommence.

The European Monetary System and the corollary French proposal to create a $100 billion fund to finance high technology export to the Third World and the revitalization of European industry has now given the lie to every variety of British system economics. The only sound anti-inflation policy consists in channeling "excess liquidity" into productive investments — investments in plant and equipment and in the development of new technologies, which raise labor productivity and cut production costs — in tandem with tax policy reform to promote capital formation. For this approach to work, what has to be frozen is categories of non-productive debt, principally the debt burden hanging over the developing sector, not the dollar overhang as Reuss suggests.

The only voice of sanity amid all the inflation versus deflation banter is that of certain businessmen and their political allies who realize that the Administration's 7 percent lid on wage increases will actually undermine labor productivity and hurt business. The president of Data General, a rapidly expanding computer company in Wesboro, Mass., told the *New York Times* recently that the wage guidelines will actually fuel inflation in his industry. Mr. de Castro said that his company was able to lower its prices 15 to 20 percent a year during 1976 and 1977 because of impressive gains in productivity. He attributed these gains to the computer industry's generous compensation of its skilled workforce, as well as the extensive training programs to upgrade skills. This deflationary process is currently threatened by the guidelines program devised by Council on Wage and Price Stability director Barry Bosworth, the whiz kid from the Brookings Institution.

—*Lydia Dittler*

Why Robert Triffin is

LaRouche clarifies the role of paper credit

Several weeks ago (Executive Intelligence Review, *Vol. V, No 47, Dec. 5-11*), *we reported on Robert Triffin's call for the strengthening of the Special Drawing Rights system which he helped design in the 1960s. We noted that Triffin is trying to "kill the EMS by cooption." In the following analysis, U.S. Labor Party chairman Lyndon H. LaRouche, who has looked at Triffin's recent productions, explains what's behind his latest outpourings.*

It is the spreading perception among leading circles on the continent of Europe that Professor Robert Triffin has been making an awful public ass of himself during recent weeks. Since I and my immediate associates know some relevant things about Triffin which other policy-makers may not have put into place from their own knowledge, my report on the current state of the Triffin case will be helpful.

My attention was first drawn to Triffin during the 1960-1961 period. I have always since granted him his due for his efforts of that period; he was one of the few policy-influencing voices who did indeed warn that all was not going well with the Bretton Woods system. Unfortunately, on matters of economics, he was less than useful then, and his recent recommendations are, at best, downright pathetic.

Mr. Triffin's most obvious ignorance is that he confuses purely paper credit and paper-credit mechanisms with what his peers among academics amuse themselves to term "savings." By "savings," the academic lads mean something very simple — yet Triffin has so far shown no comprehension of so simple a point.

Paper credit is ultimately a bill of exchange for tangible wealth *produced*. The net growth of paper credit which is associated with the expansion of an economy is properly limited to the amount of investable goods remaining after current costs of production, maintenance and replacement are deducted. Generally speaking, as long as the amount and direction of flow of paper credit is kept in line with the investment of the portion of goods represented as savings, an economy tends to function agreeably without catastrophic inflation or deflation.

Mr. Triffin's consistent folly is that he has never managed to grasp so simple a connection.

I am not saying that the foregoing covers the subject of economics. A study of my *The Theory of the European Monetary Fund* indicates what an adequate economic theory must take into account. I am merely pointing out that Mr. Triffin has flunked the first, beginner's step toward understanding how an economy works.

Unfortunately, it is not Professor Triffin's shocking ignorance of the ABC's of economics which has reduced

so muddled

in a healthy economy

him recently to an object of scandal. He has, unfortunately, some very bad associates. As any old-time probation officer knows, bad company has been known to lead a susceptible soul into troubles. There is a certain, obvious similarity between Triffin's wild misrepresentation of the European Monetary System and the current babblings of Britain's Messrs. Denis Healey and David Owen. This is no mere correlation in views; there is a more direct connection.

Triffin's crowd

Following my April 1975 Bonn press conference, at which I first announced the International Development Bank policy, a small parade of leading British bankers and their New York City and continental collaborators presented themselves at our offices for chats. In some cases, as with Hambros, their solicitation of a meeting came to us out of the blue. In other cases, like that of Mr. Nicol Krul, then of Geneva's Lombard Odier, the meetings developed in course of their extremely friendly responses to our routine economic-journalist telephonic surveys.

The contacts proliferated in London banking circles and elsewhere into the close of 1976, and were abruptly cut off (most within a 24-hour period) during the Spring of 1977, as London launched its coordinated assault upon the U.S. dollar. Over a period ranging from 18 to 20-odd months, we had a lively and frequent contact with key banking and related sorts of executives of that faction among entities representing approximately a third or more of the lot. They knew what we were up to, we knew what they were up to, and each of us knew that the other knew.

The exchange generally went thus. We followed the pathway of stating these points: "Your old monetary system can't work; ours will; come over to our side; no good can come of New York repeating the sort of mistakes you pioneered as policies." Their side of the dialogue went: "You are very clever, but we won't accept your system; you won't succeed; you will see that we know how to manipulate that pack of official fools you are interesting in your proposals."

By about December 1976 the conversations turned surly, the old amiable banter between adversaries was replaced by gruff noises. During May-June, 1977, the contacts ended, and the relations grew downright nasty.

During the eighteen or more months that sort of dialogue persisted, the British acted in a way which suggested they considered themselves obliged to feed us a certain amount of credible information — as bait for we, who were intended to be the fish in that particular sport. We, being observant and also more than a bit nosy regarding matters which are important to us, picked up much information, including many leads followed up as a matter of cross-checks and further information. In this and related ways, we were aided in placing Professor Triffin rather precisely in the constellations. The convergence between his views and those of Denis Healey is high-level and as good as direct.

It should be added that Triffin and his crowd of associates have expended a large amount of attention on Labor Party literary output, with special emphasis on my own productions. It should also be added that Mr. Triffin has direct access to sensitive information concerning the European Monetary System. One can say that his remarks concerning the European Monetary System of late are not merely blunders, but downright lies.

Triffin's folly

I have under view before me now two of Triffin's recent exertions. The first, a copy of a November 14, 1978 paper he delivered as a "John J. McCloy" address to the New York Council on Foreign Relations. The second, an article on the same topical area published in the Winger 1978-1979 issue of *Foreign Affairs.* Since others among my immediate associates will provide a fuller literary treatment of those items, I shall focus here only on certain overall features which bear directly on the point at hand.

Triffin's views of the past twenty years of the Bretton Woods system are parallel to the case of a certain witch-doctor. The tribe had contracted syphilis; the witch-doctor knew that some affliction was taking over, but had not the slightest inkling of its cause or remedy.

The ABC's of economics, referred to above, are key to Triffin's incompetence on the point. On condition that generalized technological progress obtains, and that the productive powers of the labor force are being developed through education, better conditions of life, and so forth, an economy has two basic problems to consider. First, there must be a growing ratio of "savings," and those "savings" must be invested in expanding the scale and quality of production.

The "savings" take the form of consumer goods (the wages of newly employed workers), plus materials, supplies, machinery, plant, equipment, and — indispensably — expanded volumes and density of energy supplies. By combining productive labor with the elements of capital-intensive workplace creation, the economy is expanded. On condition that technological progress predominates, and that the average intensity of capital investment is rising, the result will be not only a gross expansion of employment and output, but a twofold increase in the volume of savings. Not only does increased production mean increased savings; the effect of capital-intensive technological improvement is to increase the rate of savings even after increasing the real content of wages and public services such as health and education.

If those conditions are met, a sound economic policy and practice is in effect. Forget all the silly chatter about "distribution of wealth." If household wage-incomes are adequate, public services adequate, and the transportation infrastructure adequate, distribution will occur automatically.

There is one other possible source of trouble. The savings are put to work through the use of credit. There is no reason the amount of credit available can not be sufficient to circulate all production. The savings investments are tangible wealth; if properly invested, they mediate a larger growth in volumes of savings than the investments represent. As long as the credit system functions on the basis of those principles, no fundamental calamity can occur in an economy operating on the sound economic basis we outlined just above (barring earthquakes, nuclear wars, and so forth). However, credit systems have usually been inappropriately developed and regulated.

If credit is used for some purpose other than fostering production of new wealth, and is not biased toward technological progress in production of tangible goods, the economy is headed for a bust. Unless something intervenes to correct the flaws in the credit-system, there will be a bust.

What Triffin noted at the close of the 1950s were phenomena which symptomized the imminence of monetary crises within the Bretton Woods system. Just as the witch-doctor does not need to diagnose syphilis to recognize a growing problem in the tribe, so Triffin misinterpreted the evidence before him during the 1950s developments. If no official but the witch-doctor calls attention to the fact that a problem exists, the witch-doctor has performed a useful service *to that extent.* As to the cause of the illness of the Bretton Woods system, and therefore as to the remedies for that illness, Triffin is in fact proposing to treat the symptoms with the sickness itself.

The 1957-1958 recession was, most immediately, the culmination of a misdirected form of credit expansion during the 1954-1957 period. If a reasonable limit had been placed on consumer hard-goods credit terms, and an accelerated-depreciation and exports program had been applied during the Eisenhower administration, that recession could not have occurred with the severity and lasting effects which have been the fact of the matter. The aggravation of obsolescence in plant and equipment, noted during that recession period, was a crucial symptom of what was wrong.

If Triffin had paid competent attention to the facts I outlined during 1958-1959, he could not have blundered as he did during the onset of the 1960s or in his presently stated retrospective view. It was clear to me, and should be clear beyond quibbles to a retrospective view, that the French Fifth Republic and Japan were crucial in preventing the outbreak of monetary crises until the mid-1960s. President de Gaulle's fostering of high-technology development and long-term export-orientation of capital-goods production in France, de Gaulle's collaboration with Konrad Adenauer, plus Japan's development, provided the margin of capital-formation which kept the Bretton Woods system from immediate crisis during the early 1960s. It was the British operations against de Gaulle — with complicity from elements of the Kennedy administration and Johnson administration — plus the 1967 Mideast war, plus the British operation against Adenauer (e.g., the *Spiegel* affair), which politically upset European and Mediterranean economic-progress trends, and unleashed the 1967-1968 pound-dollar crises.

Triffin ignores two, interconnected fundamentals. First, on the economic side, he fails to consider the basics of savings, investment and technological progress in respect to the 1954-1978 process as a whole. Second, he refuses to identify the wrong-headed monetary policies and the wrong-headed fiscal-monetary management which generated both a failure to realize tangible savings and the monetary engine of a self-feeding, speculation-based inflationary spiral.

The lesson to be adduced is that the mass and rate of growth of monetary aggregates are fool's issues if viewed in and of themselves. The point is to produce high-technology tangible wealth, and to increase the scale and social-productivity of such production. This is accomplished by designing fiscal and monetary mechanisms to ensure an adequate flow of credit to production and investment in higher technology tangible-goods production, while putting other applications of monetary credit and other sources of income at a marked relative disadvantage.

What Triffin is doing currently is to copy the "soft" version of expressed British hatred against the European Monetary System. Confronted with both the reality of Giscard's and Schmidt's actual policies, and with the accelerated influence of my own theoretical-economic analysis of the new system, Triffin is using "Delphic" methods. He is attempting camouflage, to parody the "lingo" of the EMS and related proposals, while actually proposing a neoSchachtian, SDR-based world dictatorship of the bankrupt Bretton Woods system.

Behind OPEC's new oil pricing policy

The losers may be the high-rolling speculators among the multis

The announcement last week of a 14.5 percent rise in the price of oil by the Organization of Petroleum Exporting Countries (OPEC) provoked a torrent of complaints that the "greedy sheiks" are waging renewed economic war on the economies of the oil-consuming nations.

The facts of the OPEC price rise are different. The economic warfare exists but it comes from speculation by some of the big Western oil multis, not from OPEC. And the real news of the affair was OPEC's decision to stifle speculation by the new tack of organizing the price rise in quarterly increments.

Even after the initial 5 percent hike in January, the price of high quality Saudi Berri benchmark crude will be more than $1.00 a barrel below the •pen (spot) market price, said Saudi Arabian Oil Minister Zaki Yamani at the close of the OPEC meet on Dec. 17. Massive speculative buying has already driven the spot market price of high demand light crude up more than 15 percent to nearly $15.00 a barrel. And the biggest speculators are Britain's Royal Dutch Shell and British Petroleum, representatives of the interests that have the most to gain from an "oil-shortage crisis" in the U.S. and continental Europe.

Calm in Europe

In Europe, whose economies are more dependent on imported OPEC oil than the U.S., high-level sources are viewing this week's OPEC decision as a market stabilization move. The cartel, they note, may not choose to implement the second quarterly increase after reviewing the advance of the world economy promoted by the European Monetary System.

A West German Bundesbank source calmly responded to the OPEC decision in a manner representative of the general European response. "If the inflation rate declines in the industrialized nations, and there are trends towards greater economic growth," OPEC may well waive the second increase in April, he stated.

That attitude was also expressed by New York analysts, who said that in 1979, market conditions may militate against additional price boosts actually holding. The *Journal of Commerce* noted that a number of economists believe that with new non-OPEC oil coming on line from Alaska, the North Sea, China, and Mexico, supply will increase, "softening the market," and making higher prices of OPEC oil harder to sell.

The price rise in small steps, said Yamani following the conclusion of the meeting, "will help us to fight speculation at the end of the year when certain companies resort to overlifting" — the stockpiling of crude by the multinationals for sale and quick speculative profits after a price hike.

A number of other sources have indicated that future quarterly increases could easily be waived in 1979 dependent on the improvement of the world economy for which the success of the European Monetary System is critical. In this connection Carter Administration support for the EMS as the basis for a new monetary system internationally is what the Saudis in particular are counting on happening. Under such conditions the Saudis would be in a favorable position to argue for a further price freeze with their fellow oil producers.

The antispeculation formula

Both Royal Dutch Shell and British Petroleum take the lead in oil profiteering and stockpiling, say a number of market analysts. These two companies began as early as September to put out scare stories that OPEC would break with the dollar and impose a large price rise, while they began their ritualistic buying spree. Shell, in particular, does not produce oil in any significant quantity, but acquires its biggest profits as a "middle man" between the oil producers and the consumers.

Since 1976, Yamani has, on a number of occasions, condemned the practice of speculating with OPEC oil. On Dec. 1, the president of Gulf Oil told Platt's Oilgram that he welcomed OPEC's efforts to stop the profiteering.

The Iranian factor

London is counting on the crisis in Iran to continue into 1979 and force higher prices for oil by creating an artificial shortage through a drastic decline in Iran's average production of six million barrels a day. Over the last month, strikes by oil workers led by anti-Shah oppositionists forced a record drop in Iran's production to 1.1 million barrels-a-day. This development tended to reinforce an already tight market.

Iran's Prime Minister General Gholam Reza Azhari has denounced the consortium of multinational oil companies which service Iran's oil industry. The *Financial Times* Dec. 18 reported Azhari unhappy with the BP-led consortium for not helping the government resolve the costly oil strike. He informed the consortium of which 54 percent is controlled by BP and Shell that "nothing less than full cooperation is now expected" by the government. There are also hints of tension building between the National Iranian Oil Company (NIOC) and BP and Shell, whose personnel make up the majority of the foreign management of the Iranian oil industry. The *Petroleum Intelligence Weekly* on Dec. 11 quoted an unnamed NIOC official saying "things will never be the same again" between NIOC and the multis.

Well-informed Iranian sources say that at the bottom of Iran's crisis is a British and Israeli intelligence manipulated anti-Shah movement designed to blackmail the Shah into renewing a now defunct service contract with the consortium, opposed by the National Iranian Oil Co.

If the Shah succeeds in reaching a compromise with opposition figures in the coming days, he may complete the 1953 nationalization of the famed Prime Minister Mohammed Mossadegh. The personalities which will comprise his new government are directly out of Mossadegh's movement, including the mooted new Prime Minister Sadighi. A move against BP and Shell by the Shah would compound the effects of the OPEC pricing maneuver and leave London's speculators standing out in the cold.

—Judith Wyer

Yamani sees price freeze in 1979

Following the OPEC meeting on Dec. 17, Saudi Arabian Oil Minister Zaki Yamani told the press that he "predicted a price freeze for 1979." His attitude was seconded by the oil minister for the United Arab Emirates. Yamani added: "We wanted a 5 percent increase and were prepared for much smaller doses each quarter . . . but if you look at it from the overall picture . . . I tried my best to make it a little bit lower — the market itself today is in a unique situation, especially with the Iranian crisis. The price of our marker crude went up (on the spot market) by more than we raised it today."

In New York, a leading oil analyst was asked to clarify the OPEC pricing policy, and its effect on companies like Shell.

"I would agree that there will be less of an incentive now to speculate as a result of the new incremental pricing policy. But there is another feature to this decision, which is that it will only apply to the Saudi marker crude, which of course is only a small percentage of the total number of crudes produced. I am not sure now we can say for sure what decision OPEC might take in April when the second installment is due to go into effect.

"One thing about such small increases, is that it is only about 20 to 30 cents per barrel, no oil company can make any speculative profit off of that, it is just too small. So I am relieved that it may indeed normalize the markets. The OPEC nations have always resented the companies using their oil for such purposes and then passing on higher prices to consumers . . . this makes OPEC look bad."

In response to a question regarding which companies will be most affected by the pricing mechanism:

"The crude short companies will definitely be the worst hit. Royal Dutch Shell is the biggest international company in that category . . . Royal Dutch has a wild auditing system showing big earnings at the beginning of the year, most of which come from hedging and inventory profit taking. It's a paper system which then is used to bring in more stock purchases. BP does the same things showing great big profits and then selling out a lot of stock."

Venezuelan Oil Minister:
"We must avoid speculation"

In an interview given in mid-November following a series of secret meetings with Yamani, Venezuela's Oil Minister Hernandez told the press from Caracas:

"The system (of small increases—ed.) would have the advantage of allowing consumers to estimate well in advance what the cost of their oil imports would be. At the same time, we (OPEC nations) would avoid the speculation that now takes place in the last quarter of each year and the resulting accumulation of large inventories in anticipation of a price increase."

Arab Monetary Fund fights for stability

The Fund's head talks to our Brussels correspondent

Dr. Jawad Hashim, the President of the Arab Monetary Fund, gave the interview below to Executive Intelligence Review *correspondent Paolo Serri in Brussels Dec. 14. Dr. Hashim, an Iraqi, was schooled at the University of Baghdad and the London School of Economics, and served in 1967-68 as Director-General of Planning for Education and Social Development in Iraq and as Editor-in-Chief of the Iraqi* Economist. *He was Minister of Planning in 1968-71 and in 1972-74, and Economic Advisor to the Office of Economic Affairs, Revolutionary Command Council, from 1974 to 1977. He has been President of the Arab Monetary Fund since May 1977.*

Dr. Hashim reflects the solid pro-dollar sentiment of the leading oil-producing nations in the Mideast, and his expressed views are in agreement with a recent editorial which appeared in the Saudi daily Okas *on the necessity of returning to a gold standard.*

EXCLUSIVE INTERVIEW

The Arab Monetary Fund only opened its doors for business late this summer, shortly after the formation of the European Monetary System. The AMF had a long gestation period having been planned and negotiated for several years prior to its founding this year. According to informed banking sources, the AMF will act initially as a fund for helping the 22-member Arab nations to balance their deficits and to maintain currency equilibrium. This will ultimately lead to the formation of a unified Arab currency, the dinar, which will greatly streamline the final integration of the Arab world. Loans for Arab economic development will be administered through a number of large Arab and Islamic development funds. The Arab world envisions developing an independent and interconnected financial infrastructure to aid in the process of economic development.

EIR: What is your impression of the new European Monetary System, particularly in view of last week's declaration by Chancellor Schmidt that the EMS will be a positive step towards a new world monetary system?

Hashim: First of all, what is now published about the European Monetary System is not enough to judge how the system will operate, and if you know how it will operate, then whether this operation will be successful or not. I believe that after two years the system will be changed to a European Monetary Fund, and if it is used to correct disequilibria in balance of payments, then we will be having some sort of regional International Monetary Fund. Now we have the Arab Monetary Fund, then we will be having the EMF, so probably this will create more stabilizing instruments and a world monetary system. Up to now, the International Monetary Fund did not succeed in bringing, let's say, a proper remedy to what is called disequilibria. They have the means and instruments to control deficit countries, while disequilibria occurs whether you have deficits or surplus.

Let's see if the EMS is successful in its first two years of trial. I hope this will be a means of stabilizing the international monetary disorder. However, we may conclude that the durability of the EMS and its international implications require coordination of exchange rate policies with third countries and, as far as possible, consultations with them.

It is also of great importance to point out that the creation of the EMS had not been accompanied by detailed work on assistance for the less developed countries.

EIR: The French coalition UDF [French President Giscard's parliamentary coalition, the Union for French Democracy — ed.], which supports the policies of President Giscard d'Estaing, in view of the immediate realization of the new European Monetary Fund, proposed yesterday the creation of a fund of up to $100 billion for the development of the Third World, along the line of the Marshall Plan. High level West German banking sources have confirmed to us that the EMS will lead to a "world-wide investment bank." What's the existing or future possible level of collaboration with the Arab Monetary Fund?

Hashim: As far as my institution is concerned, I'm for any cooperation which really leads to an orderly behavior of the whole international financial market, because anything that happens in the world affects the Third World and the Arab countries especially. We have now reasonable cooperation with the IMF, and I believe that if the EMS operates in such a manner that it can control, or put conditionalities on surplus as well as deficit countries, then the Arab Monetary Fund which now represents 21 Arab countries will be willing to cooperate as long as this leads to some stability. This is our concern. We always emphasize the importance of stability in the monetary system.

EIR: President Giscard's and Chancellor Schmidt's thinking, as they have publicly expressed it, urges major development projects, in Africa for example, and elsewhere. Do you see any possibility for future multilateral projects involving Japan and the Comecon countries, for instance, in key high-technology development projects in Africa?

Hashim: As I told you, I don't have a clear-cut idea of what are the prospects and the future of the EMS, but probably this will lead to three poles, three centers in the world, i.e. a dollar center, an EMS center, and a yen center.

EIR: Just concerning the dollar and yen. In an interview with EIR some time ago, the official spokesman of the West German government stated emphatically that the EMS is not against the dollar, quite the opposite, it will support the dollar, that's the intention of Chancellor Schmidt . . .

Hashim: . . . Well, I think that of course any stabilization of the dollar is very important for the whole world, whether we like it or not, because of the size and the volume of the dollar, because of the American economy, the GNP of which is 35 percent of the world GNP. No other currency in the world can replace the dollar in the foreseeable future. The stability of the dollar is very important, for the European allies of the USA, for Japan and the whole Third World. In my view any drop in the value of the dollar, although it strengthens on paper other currencies, like the DM or the yen or whatever other currency, in the long term it is going to hurt, and you will see, and we have already started seeing, to hurt the economies of the European countries and Japan. It has already reduced their exports to other regions, it has already reduced their construction activities, for example in the Middle East, because it's becoming very expensive.

EIR: What do you think of the new role gold can play in the context of the European Monetary System?

Hashim: That was Charles DeGaulle's opinion, remember, going back to the gold standard, and at least during that time the international monetary structure was more stable than the floating-rate system. Because the floating-rate system was meant to operate in only one direction and what has happened now is that it is operating only for speculation and profit-taking . . . The situation is different now, but if gold was there probably we would have a more stable situation than we are facing now.

EIR: Third World countries such as Zambia and Malaysia are trying to outflank and reject the stranglehold of the London raw materials market. In this context, what do you think will be the implications and repercussions of the creation of the EMS, and a possible collaboration of the EMS-AMF to replace the City of London?

Hashim: First we must differentiate between commodity market and money market. As far as the first type of market is concerned we, the AMF, are out of it. We are mainly concerned with the money market. Thus if the proposed new market, as you say, is mainly concerned with the pricing of raw materials and primary products then I am with it. But if it is another dollar market then we should study the implications of creating such a market before really giving any opinion.

EIR: President Giscard, in his recent meeting with King Hussein of Jordan, for the first time explicitly rejected the Camp David Agreement and warned in very strong terms against the danger of a new war. In particular, we add, given the Kissinger deployment into the Middle East. How do you see the situation now, after the now almost certain death of the Camp David Accords?

Hashim: Well, if you ask me about Camp David, as an Iraqi, and as an Arab, I think what is happening to the Arabs is the most ruthless thing to happen to them. They are paying a very heavy price for no crime they committed. The Jews were killed in the West, and we are paying the price. I was in the USA during the Camp David Accord, and I can say that it is Carter's most unrealistic achievement, and it will not lead to a peace . . . I met many American Senators last summer who are supposed to have an objective view . . . They don't know where Saudi Arabia is, they don't know whose capital Baghdad is . . . If we take the resolution 242, which is the minimum the Arabs could accept, the 242 on which even the Americans have agreed, do you think a separate accord between Israel and Egypt would lead to peace and stability? I doubt it. And I think that any advice which had been given to the American Administration to that effect, was wrong advice. I don't want to mention names but I met some people really close to Carter three days after the signing of the Camp David Accord, and they didn't believe that this would work out. Now, today, the Israelis even rebuffed the American-Egyptian proposal. In my opinion the whole issue of Camp David is misleading, unjust and very very dangerous. The Palestine issue cannot be resolved without the return of all Palestinians to their homeland. Have you ever witnessed a similar case in the history of mankind where millions of people were thrown out of their homeland and other people came and settled in their place?

Teamsters upset the austerity scenario

Setbacks to union dissidents will hurt Carter anti-inflation fight but benefit nation

As the negotiations commenced in Washington last week for a new national master freight contract agreement, insiders in both the trucking industry and the so-called dissident movement conceded that the leadership of the International Brotherhood of Teamsters has the upper hand.

That is bad news for Alfred Kahn and the architects of President Carter's "restraints" approach to fighting inflation, but — in both the long and the short run — it is good news for the nation.

Behind the union's strengthened position is a series of impressive victories scored by incumbent Teamster leaderships over dissidents sponsored by PROD, Inc., a Kennedy-linked opposition grouping, and a related dissidents' group, Teamsters for a Democratic Union. Neither Administration officials nor the Kennedy camp are saying so publicly, but both were looking for strong showings by the PROD-TDU axis to weaken the Teamsters sufficiently to force the union to acquiesce in austerity policies typified by the Administration's Brookings Institution-authored "7 percent" wage-price guidelines policy.

Already under attack from both business and economists in terms ranging from "ill-conceived" and "dubious" to "disastrous," the Administration policy implies much more than mere wage-price "restraint." As conceived by such anglophile figures as Kahn, Treasury Secretary Werner Blumenthal, and Federal Reserve Chairman William Miller, the policy means putting the brakes on growth and modernization in all sectors of the economy.

The master freight agreement

The national master freight contract — the agreement that sets wage and work standards for over 435,000 truck-drivers in over 1700 trucking companies — is the "key pacesetter contract" for the upcoming year, on which the "restraints" policy will stand or fall. Through the master freight approach, the Teamsters Union has in the past not only been able to enforce a reasonable standard of living for the large and highly skilled IBT membership, with repercussions throughout the labor movement as a whole, but the agreement itself has served as a vehicle for enforcing the emphasis on high capitalization in the industry to which the IBT is committed.

For this reason, the authors of the Carter Administration anti-inflation policy are absolutely committed to forcing the Teamsters to accept a low-wage or low-benefit package. And they are at the same time promoting — under the leadership of Senator Ted Kennedy and Kahn — deregulation of the trucking industry to undercut the entire basis for the master freight agreement and the present capital structure of the industry. They are holding out the option of provoking a strike when the contract expires in April — a strike that could help trigger an economic collapse that would wreck U.S. collaboration with the European Monetary System to the benefit of the City of London. For this type of scenario to have credibility with the American public, the blame must be put on the "greedy" Teamsters or on internal chaos in the union.

In addition to PROD and the TDU, and the deregulation effort, the campaign to impose the Administration policy on the IBT includes the "anticrime" activities of the Kennedy-dominated Organized Crime Strike Force of the Justice Department and the ongoing "strike" by the so-called Fraternal Association of Steelhaulers against both the Teamsters Union and the steel industry. It is supported by heavy coverage in such media as the *New York Times, Washington Post,* the broadcast networks, etc., which keeps it in the public eye to drum into the national consciousness the notion that the Teamsters are corruption and evil incarnate.

According to a highly reliable source in the Chicago area trucking industry, all the various elements of the conspiracy against the Teamsters were counting heavily on PROD-TDU scoring major victories in the recent round of union elections. This would have "proven" that the Teamsters were "falling apart from within." Articles were ready in the "can," pushing the line that the IBT was weak and falling apart. Such articles, coupled with the "facts" of PROD-TDU victories, were calculated to have a devastating psychological effect on such Teamsters leaders as President Frank Fitzsimmons as they entered the room to begin master freight agreement contract bargaining. The industry, with prodding from Kahn, Blumenthal, and Miller, would have laid down the hard line.

But because the much planned-for victories failed to materialize, according to this source, the whole gameplan is now being "reevaluated." The announcement this week of a loosening of the Carter wage guidelines acknowledges the confusion in the anti-Teamster camp. The hope is to adopt yet another credible "bargaining" posture around which to manipulate the Teamsters. This softening will not last long — from the standpoint of the "restraints" crowd, it is to last just long enough to trap the Teamsters into not taking advantage of their present political maneuvering room.

The significance of deregulation

The other components of the anti-Teamster offensive are in place and operative. Over the course of the last two months, elements of the Carter Administration around Alfred Kahn and the Interstate Commerce Commission have been collaborating with Ted Kennedy to implement — via executive fiat — partial deregulation of the trucking industry. Their efforts have been couched in terms of "enhancing competition" and encouraging free enterprise, all of which is said to embody the "spirit of the anti-inflation program." Deregulation would effectively destroy the trucking industry, by encouraging cutthroat competition and shattering the capital structure that now enhances some degree of industry modernization. It would undo everything that the Teamsters have struggled over the last 35 years to accomplish.

It was the Teamsters union — especially under the leadership of Presidents Tobin, Beck, and Hoffa — which forced the industry to both modernize and protect the skill levels of its workforce. The culmination of that campaign came with the 1964 signing of the first national master freight agreement by Jimmy Hoffa and a reluctant trucking industry. The regulation of the industry — which prevents any fly-by-night firm as well as heavily funded speculators seeking quick profits from price cutting against established large trucking concerns and threatening multi-million dollar equity investments — gave the Teamsters the basis to set up a nationwide contract. If the regulation is removed, if the industry begins to fight among itself, the master freight agreement will collapse. The Teamsters could be induced into squabbling within their own ranks, and the centralized power of the union as a political force in the country would be ended.

In the immediate period, the effect of the announced ICC regulatory changes is to scare the more timid of the regulated carriers into thinking that deregulation is inevitable. What immediately follows from such reasoning is that the industry profits must be protected by resisting the Teamsters.

Similarly, the ongoing Fraternal Association of Steel Haulers (FASH) "strike" is also in part directed at undermining the Teamster leadership. FASH, an organization like PROD and TDU set up by cadre linked to the Washington, D.C.-based Institute for Policy Studies and the Ralph Nader operation, has at most 300 or so hard-core members. It was deployed twice previously against the Teamsters and the nation's economy in 1967 and 1974; at this point it has degenerated into a terrorist outfit organized, by the admission of its own members, as a paramilitary unit deploying to terrorize Teamsters and independent truck drivers to go along with its strike. Its

The dean of dereg:

Alfred E. Kahn, the Administration's new anti-inflation czar, is being played in the press as an academic who, the New York Times *tells us, speaks his mind and isn't used to Washington's discreet manners and deadly infighting.*

The Executive Intelligence Review's *Richard Welsh, who covered the airline deregulation fight last fall, when Kahn was head of the Civil Aeronautics Board, offers a less lyrical interpretation of Kahn in this personal reminiscence.*

I first met Alfred Kahn in 1972, as a graduate student at Cornell University where he was then Dean of the College of Arts and Sciences. At that time I was not "political" in the conventional sense, but only in my conviction that ideas were the fundamental reality in shaping the course of the world and that that was the function of a university.

Accordingly, I took advantage of a course offering by my department that entailed the design of a course by graduate students to be taught in a subsequent semester to undergraduates. The content of the course is irrelevant at this point, beyond the fact that it included material normally considered the prerogatives of three distinct departments.

The Dean succeeded in sabotaging the development of the course by a five-month maneuver of running false information to each of two departments in the name of the other department, claiming that their respective "turfs" were being invaded. In fact, outside of a few difficulties in the first few days (quickly resolved) there were no objections whatsoever except the Dean's own — which he never expressed as his own in any case.

The principle applied was the same one institutionalized by Kahn's Civil Aeronautics Board tenure: "Let's you and him fight." Things got to such a pitch that half the professors in my department felt compelled to sign a letter to the Dean complaining about the turn of events. He finally — reluctantly — agreed to a meeting that brought all the alleged adversaries together to resolve the "dispute"... though for some reason he was unable to make the appointment himself.

Chairmen of the major U.S. airlines know what I am talking about. Probably their only puzzlement is how such a seeming babe in the woods of an academic economist could pack such a wallop as unilaterally "deregulating" the airline industry — in flagrant violation of the legislation that set up his Civil Aeronautics Board in the first place—without a peep from Congress.

Alfred Kahn is no newcomer to Washington or any other high-level policy circles. He spent the years 1943-44 as a participant in the private "Palestine Survey,"

Alfred E. Kahn

having already been trained in the ways of the Brookings Institution, and has been a member in good standing of the Zionist lobby ever since.

In 1954-55 Kahn was in Italy — during the period when Enrico Mattei was consolidating his position and developing the Italian state-sector petroleum company ENI as a cutting edge in the Adenauer-De Gaulle "Grand Design" plan for European and Third World economic development. Outcome No. 1 of that period was the assassination of Mattei in 1962. Outcome No. 2 was Kahn's book, *Integration and Competition in the Petroleum Industry* — a work in his Brookings tradition of breaking up concentrations of capital-intensive industry in the advanced sector and preventing their creation in the developing countries.

This is the meaning of "deregulation."

Kahn's American political connections are no less powerful. He has been a close ally of the Kennedy family for years. Kahn was instrumental in bringing Robert Kennedy into New York State to make his run for the Senate. When Hugh Carey, close to the Kennedy machine, was elected governor of New York, Kahn was appointed head of the New York State Public Service Commission.

Readers of this publication will remember that Kahn's book *Great Britain's Role in the World Economy* is where he marveled at the economic efficiency of Nazi Germany. He declared there that had Germany only shown the same capacity for "belt-tightening" and "imaginative economic reorganization" in the payment of their Versailles reparations that they showed "since 1933" there would have been no debt repayment problems. The good economics professor allowed this to be published in 1946, at that.

To summarize Kahn's *vitae*:

- 1941-42: Department of Justice Antitrust Division
- 1944-45: Twentieth Century Fund (Studies of cartels and monopoly)
- 1951-52: Brookings Institution
- 1953-55: National Committee to Study the Antitrust Laws (Attorney General's)
- 1960-61: U.S. Foreign Agricultural Service, Israel
- 1963-64: Department of Justice
- 1967: Ford Foundation

So when the *Times* declares the Dean to be "impolitic but learning," they overlook the fact that he did his learning 30 years ago, and that he has been most politic for a long, long time. The kernel of truth is that Alfred E. "What-Me-Worry" Kahn's politics do not go so far as an ability to defend his "free enterprise" cult of Nazi economics in principled public debate.

demands are ludicrous — the "decertification" of some 10,000 Teamster-organized steel haulers and the recognition of FASH as their bargaining agent. Apart from the handfuls of highway terrorists who are shooting at Teamster-driven rigs, according to all available reports, any steel hauler who is "shutting down" (not driving contracted routes) is doing so for fear of his life. Despite the overwhelming evidence that FASH enjoys almost no support, the media has given it plenty of coverage, and elevated blowhards like Bill Hill, FASH's national director, into heroes fighting the big trucking companies and the Teamsters.

The appeal of FASH rests on its credentials as representatives of so-called independent truckers. The independents represent a particular problem to the industry and the union. By all rights, they shouldn't exist. They came into being because various industry people attempted to shed the massive capitalization costs by reselling rigs to drivers. These new owner operators, who also picked up repair and other costs, then contracted back to trucking concerns for work. The whole concept of "independent trucking" — a concept which is encouraged by deregulation which eliminates barriers to its proliferation — undermines the centralization of the trucking industry, and creates a built-in impulse toward undercapitalization. As Teamster leaders such as Jimmy Hoffa recognized, this heteronomy would eventually destroy both the industry and the union, and the tendency towards the proliferation of owner operators had to be resisted. The solution, according to Hoffa, was to bring the whole industry under the aegis of the Teamsters. FASH was in fact created in part as an impediment to this type of organizing, and continues to be a battering ram against the union's ability to deal effectively with the problem.

Behind all the rhetoric about union democracy emanating from PROD-TDU leadership there is actually a coherent organizing strategy. The way the union is presently structured, it is impossible for PROD-TDU to have a major influence at the national level. One of the most democratic unions in the country, the Teamster leadership is elected by some 3,000 delegates representing close to 2,000 locals at the union's national convention. A strong PROD organizational presence at the national convention is out of the question. Their goal is thus to rot away the control of the Washington-based IBT leadership on the local unions; this push for decentralization fits neatly into the organizing climate created by the efforts of FASH and of the Kennedy-Brookings crew pushing deregulation. The key is to create maximum heteronomy and destroy the Teamsters as an institution.

This properly locates the significance of PROD-TDU campaigns to take over several key local unions. If they gained control of such a base, they could use it to build a "trojan horse" inside the union.

So, the defeats in key locals have badly damaged this effort. The Teamsters, by exposing the political nature of the well-financed PROD attack against them, were able to turn back this multimillion dollar attack.

Nowhere was this battle more sharply defined than in New York Local 282. The PROD slate received one of the fullest media treatments in history — every major local newspaper and several nationally important papers like the *Washington Post* declared the Local 282 election to be the most significant in recent history. Every conceivable slander against Local 282 President John Cody — much of it leaked from the Organized Crime Strike Force directly to several correspondents — found its way into print. A top-rated national TV show, CBS's 60 Minutes, devoted a full 23-minute segment to attacking Cody and glorifying PROD candidate Ted Katsaros. Rumors were leaked that Cody was about to be indicted.

PROD and their controllers had counted on Cody to "play by the rules." But he did not — he decided to fight politically. Over the summer Cody and Local 282 had rallied the area building trades to resist efforts to impose a wage cut contract. Behind the contract effort was banker Felix Rohatyn, a national austerity promoter who wanted to make the New York area building trades into a national example of unions that could be broken by "austerity management." After a nine-week strike, Local 282 and John Cody emerged victorious. He had won a good contract for his own men and helped win one for the area construction unions.

The morale of his union executive and his shop stewards was high. However they lacked the ammunition to deal PROD-TDU a decisive blow.

The U.S. Labor Party provided him and his union with that ammunition. Labor Party representatives briefed his executive, then his shop stewards on the nature of the conspiracy deployed against the Teamsters. They assisted Cody in conducting a political education campaign that identified the danger represented by PROD. This culminated in a mass educational meeting attended by nearly 500 union members.

When the votes were tallied Dec. 10, Cody had won by a decisive margin — far greater than anyone had expected. Union leaders and members alike attribute that margin to the collaboration between the Teamsters and the Labor Party.

The Labor Party has assisted other locals throughout the country in conducting similar educational campaigns. Where Teamsters leaders have identified the political nature of the attack against them, they have won. In other places where incumbent leaders have hedged, and on occasion resorted to silly red-baiting of PROD-TDU, they have played into their enemies' hands and in some cases lost.

The PROD-TDU ranks are now demoralized. Even before the Local 282 defeat, PROD national organizer Paul Poulos had been forced to resign. He told a reporter that he was not able to withstand the pressure of "truth squads" of irate Teamsters who seemed to hound him wherever he went with questions about the "conspiracy against the Teamsters" and the sources of PROD's funding. As of this moment PROD has not been able to find anyone to replace Poulos.

— *Lonnie Wolfe and Matthew Moriarty*

Q. What's wrong

A. It's unconstitutional

The proposals put forward by Senator Kennedy, Ralph Nader, and others to deregulate the trucking industry are cloaked in the disguise of "consumerism" and "the free enterprise system." Kennedy and his friends claim they want to reconstitute the regulatory role of the Interstate Commerce Commission to "lower artificially high freight charges," and thus benefit the ultimate consumer of any finished product. They intend, they say, to make it possible for the "little guy" to compete with the now "monopolistic" regulated carriers. Underneath the catchwords, however, the purpose is to dismantle a fundamentally capital-intensive industry, which employs highly skilled and well-paid labor, and to loot the already existing investment in sophisticated capital equipment and an educated, trained workforce.

To this end, the Kennedy proposals would redistribute portions of the carrying trade to the independent, unregulated carriers, presumably to provide them with sufficient income to maintain payments on the gigantic equipment debt which has bankrupted increasing numbers of them. At the same time, the deregulators propose to open up the industry for "competition," encouraging the entrance of even more underfinanced, underequipped independents, undermining the master freight contract as well as the market available to the large corporations with major investments in capital equipment, terminal facilities, and so on.

Any such proposal would be absolutely unconstitutional. How? The U.S. Constitution was in fact originally written for the specific purpose of creating a government capable of directing and developing commerce and industry for the benefit of the entire nation. The right and responsibility of the government to do so was written into the document, in the commerce clause: "Congress shall have the power to regulate commerce with foreign nations and among the several states. . ."; in the "necessary and proper" clause: "Congress shall have the power to make all laws which shall be necessary and proper for carrying into execution the foregoing powers . . ."; and in the "supremacy" clause: "This Constitution. . . shall be the supreme law of the land . . . anything in the constitution of laws of any state not withstanding. . . ."

In other words, Congress not only has full rights to

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regulate or direct the entire economy, it has the **responsibility** to do so for the general welfare of the population. Legislation which will have a destructive effect on the economy is outside the power of Congress to enact.

Constitutional boundaries

Congress and the courts have often lost sight of the full meaning of the responsibility vested in them by the Constitution to direct the economy, and have fallen into quibbling over the boundary lines between interstate and intrastate activity, and whether the states or federal government have the right to regulate on any particular issue.

However, the nation has had a commitment, dating back to 1791 and Alexander Hamilton's "Report on the Subject of Manufactures," which urged government subsidies, bounties, and direct intervention to foster industry and commerce, to develop a national transportation network commensurate with the requirements of a developing economy. The course and history of the legislation and judicial action to accomplish that purpose make it equally clear that the promotion and stimulation of commerce and industry is to be created through the collaboration of business, labor, and government.

This history of government direction and involvement under commerce clause and other constitutional powers includes efforts to provide government financing for roads and canals in 1818 and 1824, the creation by special Act of Congress of national railroad corporations in the 1860s under Abraham Lincoln's direction, the organization of the Interstate Commerce Commission in 1887 to rationalize rate structures and rail construction, the passage of the Transportation Act in 1920 to continue the development of the transportation network which had advanced under direct government control during World War I, the subsidization of the development of aviation in the 1920s and 1930s, and the federally directed and subsidized construction of an interstate highway network authorized in 1956.

At no time has Congress indicated or the courts upheld any idea that the development of an integrated transportation network would be facilitated by creating undercapitalized, underequipped, overworked "competition." Nor has it ever been an overriding principle that any particular service provided by a regulated industry be made available to the consumer on a cost-of-service-plus-minimum-percentage-profit basis.

Why the ICC?

A look at the 1880s, when the Interstate Commerce Commission (ICC) was created, and some of the followup transportation legislation is useful to demonstrate just how far afield Nader and Kennedy have wandered in their "reform" efforts. The ICC was created by the Interstate Commerce Act of 1887, the first comprehensive regulatory act passed by Congress. This was by no means the first effort to regulate and develop the transportation system. Even before the Civil War, the states had granted exclusive rights and charters to certain carriers, and had regulated rates, in an effort to ensure adequate, relatively reliable transportation.

But after the Civil War, the construction of railroads was financed largely by British capital who turned a legitimate construction project into a speculative boom. Companies, which were often partly financed publicly, were permitted to pick whatever routes they wished and proceed with no financial requirements or other regulation to construct railroads. This "free enterprise" competition resulted in murderous rate wars, kickbacks, rebates, and secret tariff agreements.

The effect should have been as foreseeable as the effect of the current Kennedy deregulation proposals. By 1887, 108 railroad companies, almost all of them small companies with few miles of rail, were in bankruptcy receivership. States had begun to amend their constitutions to forbid public financing of railroad construction ventures. The entire transportation network, by that time absolutely essential to the functioning of the national economy, was threatened with collapse.

Convinced that chaotic halfway measures of state regulation of railroads would not work, the Supreme Court in a decision written by former Abraham Lincoln ally Justice William Miller ruled that states had no regulatory authority over the interstate transportation network. Congress was forced to create the Interstate Commerce Commission.

The ICC's job was to regulate freight tariffs to make transport services available to those who needed them at rates which they could afford, as well as providing sufficient profit to the railroads for a capital fund for the expansion and modernization of the industry. As one historian of the period has noted, the amount of money charged any particular consumer was of less concern than the establishment of steady, fair charges and regularity of service.

Foes of that regulatory perspective raised the populist banner of consumerism as early as the 1890s. They attacked railroad freight charges, demanding bargain basement transportation prices for farmers hardpressed by economic depression so the farmers could pay their debts to rapacious speculative bankers. The effect by the turn of the century was to loot the railroads' capital funds for modernization and development, restricting overall development of the industry and *decreasing* the level of services. A look at the condition of the railroads today indicates the ultimate effects of such "reform" policies.

A. It will wreck the economy

Senator Kennedy objects to the "concentration" of the trucking industry, a populist appeal to the "little guy" to fight the "big bad monopolies." The industry is indeed concentrated *because it must be* if an efficient national freight system is to exist.

"Big business" *and* "big labor" built this country and the important role in the national economy fulfilled by smaller firms is only served in cooperation with the larger corporations. Small companies, in any industry, are rarely able to meet the requirements of capital investment, maintenance, and labor standards that make larger firms more efficient, cheaper, and more productive.

Although the Interstate Commerce Commission has lately been described as a place where a fly can buzz in and die of boredom, the ICC has over the past 40 years managed to create and maintain a relatively efficient national freight transport system, serving the needs of a tremendous range of industrial, commercial, and private users. There are over 16,000 separate trucking firms operating under interstate regulation.

From the standpoint of an individual motor carrier or shipper, the ICC may make life more difficult, particularly for the large shipper who has the clout (if unregulated) to call the tune for a population of scrambling truckers. Present ICC regulations *do* raise the price for this customer in order to ensure that a motor carrier system can, as a whole, continue to exist for the economy and population. As it is, any major shipper, under deregulation, can expect his cut-rate charges to quickly collapse.

One little-mentioned feature of ICC regulation of motor carriers is that operating authorities (route certificates) not only *permit* a trucker to service a particular route or pair of terminal points, but also *oblige* him to. Under conditions of Kennedy-style "deregulation" — especially "free entry" to routes of one's choice — nothing would prevent any and all carriers from abandoning the less profitable runs altogether.

Just as a highway or education system "subsidizes" certain classes of users through disproportionate taxation, ICC regulations on free entry and rate setting ensure that smaller communities and smaller shippers have a motor carrier service that is affordable.

But under deregulation, an auto manufacturing firm, for example, would have no trouble finding cheap rates to ship finished autos, but the many small companies supplying parts will either have to pay higher rates, or worse, be unable to ship on schedule as service becomes less and less reliable. This potential bottleneck includes a multitude of small machine shops that produce many of the dies used by the manufacturer; similarly, the hundreds to thousands of subcontractors supplying an airplane manufacturer with components and subassemblies, accounting for some 50 percent of the total cost of the aircraft. To this direct cost factor add the disruption in production as parts do not arrive on time, and total cost goes up even further as assembly line processes break down. Thus, even if increased trucking costs on unprofitable routes are offset completely by corresponding reductions in long-haul traffic, a net increased cost to the economy, measured in finished goods, remains.

Financial trouble

As things stand now the trucking industry is *not* a big moneymaker. Some 300 carriers account for 90 percent of total intercity business revenues for general freight, and 95 percent of the profits, while the remaining 10 percent of business and 5 percent of profits are spread among the 700 other carriers with revenues over $500,000 annually.

With the profit margins of 1.7 percent and 3.1 percent of gross revenues, what would happen if under conditions of unregulated competition a carrier could be forced to reduce his rates by, say, 2 percent. This is a reasonable figure — surely Senator Kennedy would want to see at least that much saved by the "consumer." For the carriers, profits would be all but eliminated!

Since no one could operate under these conditions, but would still be financially compelled to win over the more lucrative routes and shippers, carriers would first increase rates for the less attractive runs. Step two, they will cut expenses: run the fleet longer than it can safely hold together, cut back on maintenance, increasing accident and loss rates to shippers.

The impact on working conditions is even more immediate. Wages are some 30 percent of carrier costs. The pinched, or even potentially pinched, carrier will move quickly to cut these costs. It may be difficult to get the International Brotherhood of Teamsters to cooperate, but the carrier may see no other choice. In the still shorter term, he may have to take on more independents at less than union pay rates.

The unregulated "independent" owner-operator survives substantially thanks to the regulated carriers. Just as a major shipper will "protect" the carriers who take his goods on a contract basis (some 8-9 percent of all regulated tonnage is fixed by long-term contract), many common carriers pay their independents at a better than union level to ensure safe and reliable operations. More, of course, do not. As it stands now, perhaps a third of the independents operate on this basis, almost as employees of a regulated carrier. Until now the number of independent owner-operators has been substantially declining for a number of years. If deregulation becomes law, cost-cutting competition would reverse this trend and the proportion of poorly paid drivers and poorly maintained vehicles in the national system would increase.

Brzezinski tries to keep the EMS out of Mexico

Last week the French tried to tutor Jimmy Carter on diplomacy, but Zbigniew Brzezinski is apparently making sure Carter doesn't learn anything. The National Security Advisor has applied himself to increasing U.S. pressure on France, and the new European Monetary System, to halt "technology-for-oil" aid to Mexico's ambitious industrialization. The personal spokesman for French President Giscard d'Estaing, Pierre Hunt, last week characterized the policy this way: "We do not understand why French-Mexican energy accords could bother the U.S., unless it considers Mexico its private hunting preserve."

The U.S. policy emerged in portions of a classified policy review document, called Presidential Review Memorandum 41 (PRM-41), leaked to the *Washington Post* Dec. 15 by Brzezinski's office at the National Security Council.

As predicted two months ago in this journal (Vol. V, No. 42, Oct. 31), and now confirmed with a vengeance, PRM-41 outlines a series of "options" to Carter for "improved U.S.-Mexico relations." Its every feature implies strangulation of Mexican industry and development, and brutal pressure tactics to gain control of Mexico's enormous oil and gas reserves.

A French "how-to" manual

In contrast, the French established a framework for negotiations with Mexico last week which could serve as a "how-to" manual for U.S. forces seeking a positive policy toward Mexico and the rest of the Third World.

At the core of the negotiations was the concept of "oil for technology" and transfer of technology. France's Industry Minister, Andre Giraud, headed up a French delegation in Mexico City preparing the groundwork for a visit by Giscard to Mexico at the end of February. Mexico's oil company, Pemex, together with the development bank Nafinsa, signed a 10-year "letter of intent" with the French Foreign Trade Bank. The letter proposes a financial mechanism which can allow the use of future oil income for purchase of capital goods and French services. Mexican exports of 100,000 barrels per day of crude oil to France were set to begin in 1980. Giraud stressed the need for "immediately encouraging French-Mexican industrial cooperation."

The joint communique issued at the end of his visit focused on the larger context for the French-Mexican discussions. The new accords, it said, "should allow France to become an important economic partner of Mexico in Europe and allow Mexico to be an important partner of France in Latin America." Putting a price-tag on this "think-big" perspective, Jean-Francois Deniau, Foreign Trade Minister and head of a coalition of smaller parties supporting the Giscard government, issued a party platform calling for a $100 billion fund for world development, including 10-year credits for Third World countries to buy industrial goods and technology from advanced sector areas (see INTERNATIONAL). Deniau will be in Mexico in early January to conclude the preparations for Giscard's trip.

The upcoming meetings of Mexican President Jose Lopez Portillo and Giscard, Giscard spokesman Pierre Hunt said, "take on special significance from the fact that Giscard will be president of the European Economic Community at that time."

February battleground

The two opposing policy approaches — Brzezinski's on the one side, the EMS's on the other — will meet head on in Mexico two months from now. Brzezinski lined up Carter to visit Mexico in mid-February in an effort to undercut the previously scheduled Giscard trip.

And Carter appears to be astoundingly ignorant about Mexico. A month ago he was asked in a press conference about the furor caused by plans to build new, Auschwitz-style fences at various spots along the border. He responded, "What fences?" Two weeks later, asked to comment on what he hopes will develop from the Mexican trip, he blandly stated that he expected to "conclude ongoing negotiations" on a gas sale to the U.S. Any "ongoing" negotiations are certainly news to the Mexicans. They are still smarting from the high-handed way Schlesinger treated them a year ago and have repeatedly stated they don't intend to get back into the gas-selling business yet.

Given the way Brzezinski has briefed Carter in the past, his future coaching of Carter is highly dubious. In order to get Mexico's oil, says the *Washington Post* account of the PRM, "the United States could view Mexico as a world-scale partner and accord it significant concessions on winter export of farm products as well as quotas for legal immigration of workers to the United States." While the EMS plans the industrializing of a continent, Brzezinski talks blandly of bringing in a few more Mexican tomatoes!

There is little doubt how Mexico will react. As Mexican Foreign Minister Santiago Roel stated in the midst of the PRM-41 publicity last week, "There will only be Mr. Lopez Portillo and Mr. Carter discussing the energy question, and Mr. Lopez Portillo will have the last word." We face a "wall of incomprehension" in our dealings with the U.S., he lamented. Instead, relations between the two countries must be based on "respect for national sovereignty. We must supersede the classical North-South relations developed in a geopolitical context."

— *Tim Rush*

PRM-41: a translation

The *Washington Post*'s front-page story on the Presidential Review Memorandum 41 of Dec. 15, under a J.P. Smith byline, was simultaneously published front-page in the *Los Angeles Times* and Mexico's *Excelsior*. Following are choice paragraphs from the *Post*'s carefully publicized leak, with commentary.

"For the United States, Mexico represents a major new energy source, presently outside OPEC. . . . A redirection of Washington's policy toward Mexico could provide an alternative to increased dependence on Arab oil. . . ."

This was the Zionist lobby line picked up enthusiastically by Senator Edward Kennedy last summer. The Senator has repeatedly stressed that he is not interested in Mexican oil because he wants the U.S. to have plentiful energy, but rather as a geopolitical option held in reserve against the Middle East OPEC producers, particularly Saudi Arabia.

"[Redirection of policy] could result in a sanctioned program for Mexican aliens now immigrating illegally to the United States. . . ."

Mexico's position is simple: it wants to export "goods, not people." This can be done by industrializing at full speed. Mexico knows that such industrialization, joined to development in other Third World areas, means an industrial resurgence in the U.S. — a resurgence capable of absorbing and training Mexican workers while Mexico's "economic takeoff" gains force. No negotiations over the "illegals" question, especially in the context of an "oil-for-aliens" deal, will be acceptable to Mexico. It properly recognizes that the issue is one of blackmail.

"[Redirected policy] could result in lowering tariff and other trade barriers to Mexican exports, such as vegetables and textiles. . . ."

What is not mentioned is that these "concessions" will only be granted if Mexico agrees to lower its own import restrictions, particularly against U.S. consumer goods, preferably in the context of Mexico's joining GATT. Said Viron Vaky, Undersecretary of State of Latin American Affairs and an insider in the PRM-41 discussions, in a speech this week: "Mexico must liberalize its trade, because that is a key point in mutual relations." But Mexico has made clear that it will not tolerate this policy of deindustrialization. The trade issue is one of the biggest clubs being wielded against Mexico by the Brzezinski forces.

"And [redirected policy] could result in the creation of a special negotiator for Mexican Affairs reporting directly to the President or [the] Secretary of State. . . ."

This proposal was floated by Kennedy last summer through pliant journalist fronts at the New Republic *magazine. Kennedy wants a special negotiator to maximize pressure for a "package deal" with a minimum of negotiating room for Mexico.*

"James R. Schlesinger, Jr. was reproved in a sharply worded letter last Nov. 8 from National Security Council head Zbigniew Brzezinski for trying to end-run the Council's PRM process by going directly to the President or negotiating directly with Mexico's national oil company."

The question is whether the Texas-based groups who want an oil-for-technology policy with Mexico are going to fall for Brzezinski's sudden dismay with Schlesinger. This supposed displeasure is modeled on Kennedy's sudden discovery of Schlesinger's sabotage of the gas deal last summer, at the height of the Zionist lobby's interest in Mexico's oil.

"If the United States adopts a posture treating Mexico as 'a partner,' sharing advantages equally, the PRM suggests that a North American community, including Canada, could eventually evolve. This also would imply increased Mexican energy production, without any loss of Mexico's national sovereignty."

"Without any loss of Mexico's sovereignty" — Most Mexican officials know that what was actually meant by this kind of "common market" scheme is Mexican annexation to the U.S. as a quaint supplier of agricultural goods and raw materials. Canadian Seagram's whiskey magnate Edgar Bronfman, in an interview last summer, added his wholehearted approval of the notion as a step toward legalizing marijuana production in Mexico and marijuana consumption in the U.S.

"The rationale for a carefully stitched Mexico policy, the draft PRM says, is that 'While there is little danger that — unless we attempt to seal the border — Mexico will become overtly hostile, the cumulative impact of unmanaged tension could end the conditions that have enabled the United States to discount Mexico's nearness."

"Unless we attempt to seal the border." This phrase alone in an official secret memo at the highest level whose outlines "were agreed upon at a cabinet-level meeting last week" tells Mexico all it needs to know of the mentality of the PRM drafters. The passage brings to mind scenarios-mongering to be boiled down later into the one-word code-phrase: "security threat."

Discover plot against Saudi Arabia

Murder of Faisal tied to U.S.-based British intelligence network

A team of investigators is hot on the trail of the conspiracy that assassinated King Faisal of Saudi Arabia in 1975.

It has uncovered a vipers' nest of British and Israeli intelligence operatives within the U.S. academic, intelligence, and military establishment, whose primary assignment is the subversion of the Islamic world, especially Saudi Arabia and the Persian Gulf.

According to a team of investigators from the U.S. Labor Party, the ringleaders of the conspiracy are clustered around the Aspen Institute in Colorado. Included in the top ranks of the network are Harlan Cleveland, the head of Aspen, and a leading member of the oligarchist Knights of St. John; Angier Biddle Duke, an Episcopalian patrician who controls a stable of rabid Zionist warmongers; and Dr. Joseph J. Malone, a self-described "old Arabian hand" with pretensions of being the modern version of the pederastic British intelligence star Lawrence of Arabia.

Who killed the king?

King Faisal, the modernizer who led Saudi Arabia into the industrial age, was assassinated in March 1975, only two days after Henry Kissinger's shuttle diplomacy collapsed in failure. Saudi Arabia, according to Arab sources, was urging President Sadat at that time not to sign the pact that eventually became Sinai II, and Kissinger — in a rage — blamed King Faisal for the failure.

The assassin was a young Saudi prince who had spent many years in the United States. From interviews with official sources, the Labor Party reports, it is confirmed that the assassin was "controlled" by one Christine Surma, who Colorado sources report was a drug pusher and member of the degenerate "counterculture." Surma befriended and seduced the gullible young prince, bringing him from Colorado to a left-wing, drug-infested commune in Berkeley, California. Preliminary indications are that in California the prince was ensnared by the cultist, LSD machine in that state — the same intelligence operation that created the brainwash victims of the People's Temple.

"There is no question in my mind that the young prince was tampered with. He could not have killed King Faisal otherwise," said a source who knew the prince. "It was that girl — she used him." And "that girl," it turns out, was a young radical who made cultist films, including one entitled *Bite of the Cobra* for a firm called El Cobra Productions in California.

Aspen's Islam project

As the *Executive Intelligence Review* has documented, the current wave of religious unrest in Iran and throughout the Islamic world is not a "sociological phenomenon." It is a deliberate project of British and Israeli intelligence to destabilize the Persian Gulf and destroy the industrial development plans of the region.

Its primary object is the overthrow or capture of the Shah of Iran by fanatic religious reactionaries and the pro-Zionist Bahai cult, a secret network of Freemasons under the control of Scotland Yard. The British-Israeli geopolitical goal in the area is to set Iran against Saudi Arabia, with the object of destroying the Saudi monarchy and American influence in the Arab world.

A subsumed feature of the plan is the eruption of a series of tribal and sectarian wars of rebellion throughout the Arab world, modeled on the Kurdish uprising in Iraq in 1975 or the fascist Maronite Falangist "national" revolt in Lebanon. This is the so-called "Bernard Lewis plan," named after the Oxford scholar on Islamic subversion, who is widely known as an advisor to Israeli intelligence.

The design for the disruption and subversion of Islam was originally mapped out by the Aspen Institute. Under the direction of Harlan Cleveland, Aspen is running a series of projects on the Islamic world, for which the case officer is Robert Christopher. The prime funder for the Middle East Project is the East-West Foundation in California, which is funneling money from the Fluor Corporation into the project at the behest of the Heritage Foundation. One professor familiar with Aspen angrily denounced its programs and seminars as "ritualistic brainwashing for weak and very ignorant men with large inferiority complexes."

Working with Christopher is Peter Iseman, a "freelance journalist" with close ties to British intelligence. Iseman is the nephew of Arthur Ross, a New York agent of London who is the prime backer of Senator Jacob Javits, and one of the men who helped create Aspen in the first place.

Recently, Iseman spoke at the Council on Foreign Relations in New York, along with Israeli Haim Shaked, the Mossad's chief specialist on Saudi Arabia, and Thomas McHale of the London "East-West Group." The subject of the meeting: "instability" in Saudi Arabia.

Target: Saudi students

According to participants at that seminar and others involved in the project, the vehicle for the destabilization of Saudi Arabia is, for the most part, Saudi students presently in the United States.

Angier Biddle Duke, for instance, said recently, "There are many Saudi students who are unhappy with the regime there. I personally know one Saudi prince, a student in Georgia, who would like to change the structure of Saudi society, to make it more democratic." He revealed that he is in touch with a network of such "dissident" students scattered across the U.S.

Duke recently chaired a conference, sponsored by the Zionist "National Committee on American Foreign Policy," at which the chief agenda item was the unreliability of America's allies in the Persian Gulf. Attending the conference were the most fanatical of Zionism's fanatic military strategists, such as Edward Luttwak, General George Keegan, Joseph Churba, Bernard Lewis, Uri Raanan, and Robert Tucker.

One of the participants, Hans Morgenthau, said that there is an "underground" in Saudi Arabia that is closely linked to Israeli intelligence, comprised of young Saudi students and members of the royal family and military, and he urged Washington to set up links with this "opposition" via the Israelis!

Joe Malone, spy

But perhaps the leading spy in this affair is Dr. Joseph Malone, formerly director of Middle East Studies at the National War College.

Malone, who is currently in Saudi Arabia, has access to the Saudi royal family by virtue of his carefully cultivated posture as an "Arabist." He has made a careful study of Saudi Arabia, its people, dialects, and so forth. Presently, Malone heads an outfit called Middle East Research Associates (MERA), whose codirector is Dr. Heino Kopietz of the University of London. Here, the staff researchers of MERA are drawn from the ranks of the stringers for the London *Economist*.

Last summer, Malone, who works closely with the Aspen Institute, was a director of an extended Aspen brainwash seminar on Islam and the Middle East.

Malone is also a director of a shady operation called the Middle East Educational Trust. According to one Saudi-linked source who has been approached by Malone, the Trust "claims to demonstrate new approaches to Mideast education, or something like that. Actually, it seems that the Trust is trying to build up an independent intelligence capability of some sort."

The four other members of the Trust's board of directors are Jack Hayes of Mobil Oil; Hugh D. Auchincloss, who is tied into, among others, the Kennedy-British network; George Renz of Aramco and Smithsonian Institute fame; and Persian Gulf specialist John Duke Anthony of the Johns Hopkins School for Advanced International Studies.

Malone is spreading the line that instability in Saudi Arabia may result from the unrest of the younger generation, which Malone says he is contact with. A Washington source who knows Malone well said, "Joe Malone is very close to British intelligence, and to the British in general. He works closely with the British Embassy, in fact." In a meeting with this writer last summer, Malone boasted that he "knows every important officer of British intelligence in the Persian Gulf."

Malone has since launched a vituperative campaign against his critics. After a hysterical denunciation of this writer at a public conference of 500 people at the Middle East Institute in Washington, Malone scribbled a letter and mailed it to, he claims, "hundreds" of U.S. institutes, corporations, and individuals, urging them to stay away from the U.S. Labor Party. The Labor Party, rants Malone, is "fascist, Nazi, and anti-Semitic."

The connection with the assassination of King Faisal? In addition to Malone's preoccupation with would-be Saudi dissidents, the answer might be found in his contacts with a degenerate drug-zombie rock-and-roll group called the Grateful Dead, who dined at Malone's home in Washington this past Thanksgiving. That group, which originates in San Francisco, is a centerpiece of the drug network in California, out of which Faisal's assassination was concocted. Now, Malone is escorting the Grateful Dead around the Arab world, most recently bringing them to Egypt for an Isis cult death festival at the pyramids.

—Robert Dreyfuss

Out to get the Saudis

Bayley Winder, a director of the East-West Group, which maintains offices in Princeton and London, recently expounded on the possibilities that unrest will develop in Saudi Arabia. Last summer, Winder, who like Joseph Malone brags about his fluent Arabic and "good credentials" with the Arabs, was the comoderator, along with Malone, of Aspen's Middle East seminar on Islam. Winder's associate at the East-West Group, Thomas McHale of London, recently gave a presentation at the Council on Foreign Relations in New York on instability in Saudi Arabia.

The focus of Winder's analysis of Saudi instability is on "external" causes. Winder also touched on the possible emergence of other Saudis like the young Prince Faisal who killed his uncle, King Faisal, in 1975.

Anything like what is happening in Iran has got to be upsetting for the Saudis. What is happening in Iran is something that will not lead to greater stability elsewhere, especially in Saudi Arabia.

These days, if you're sitting in Riyadh, you begin to feel encircled. First, there's Israel, and that's not a happy situation. Then there's Syria. Even though there's no worry now, there is always the possibility that Syria might turn against you. Iraq is a big threat. It has as much oil as the Saudis, if not more, plus a very powerful military. Afghanistan is a mess, and with Iran a mess, that increases the Afghanistan threat. In Oman, things are quiet, although there are still pockets of unrest over the Dhofar situation. South Yemen — that's a terrible mess. The East Germans are running a lot of stuff in. So are the Cubans. The Horn of Africa is very unhappy. And Egypt is potentially the most dangerous threat of all to the Saudis, if the rift between the two countries continues. And then, of course, there's Iran.

So you don't feel so great sitting in Riyadh these days.

Internally there are problems too. Despite the great differences between Iran and Saudi Arabia, I think the lesson is the same: It is wrong to bring about change and modernization too fast. That is why the Shah is having so much trouble now — we went too fast. Saudi Arabia is less populous than Iran and also has much greater resources and more money. Thus there's a greater ability to buy off dissident segments of the society. In addition, a lot of people, younger people in their thirties and students, may not exactly like the way things are in Saudi Arabia, but have too much money to get really upset about things. But there's always exceptions. Look at Prince Faisal and what he did. I expect that phenomenon to be seen more frequently.

Cultivating 'dissidents'
— the way the Israelis do

In a conversation with a reporter last week, Angier Biddle Duke zeroed in on the layer of Saudi society that is being deliberately cultivated to stir up discord in Saudi Arabia.

There's plenty of potential discontent in Saudi Arabia. There's definitely a growing feeling that things there have to change. Why, I just spoke recently to a young man, a Saudi prince, down in Georgia, who impressed me with how discontented he is with the situation in his country. He feels things have to change! You know, what young princes like him want is a more democratic society. That's what they're picking up on campuses in the U.S. right now, the need for a more democratic society.

Hans Morgenthau of the National Committee on American Foreign Policy supported this idea fully, with an added twist.

We're making a big mistake, our government here, in failing to maintain strong contact with the opposition. It's the same problem we fell into over Iran. My recommendation is that we comprehend the necessity to work more closely with those intelligence agencies that better understand the opposition factor, in particular the Israelis. I know as a matter of fact that the Israelis maintain strong contact with the Saudi opposition, or underground. The Israelis are very good at this kind of thing, and I am sure that they know the underground in Saudi Arabia very well — and we should work with them more regularly.

New dynamics of East-West trade

The Soviets' 1979 plan is for city-building despite constraints

Each year the Soviet Communist Party Central Committee and the Supreme Soviet meet to ratify the coming year's economic plan. This year the meeting took place days before the announcement from Western Europe that the new European Monetary System is set to go into operation on the first of the year, and the published proceedings of the two sessions show how much the USSR needs the international trade recovery, and economic and political stability, which the EMS is designed to bring about.

Soviet economic policy is typified by the national commitment to the largest development projects in the world, on the Siberian and Far East frontier. The communication to Western European leaders of the Soviet development outlook, in fact, was instrumental in the process of forming the EMS. West German Chancellor Schmidt's presentation to the Bremen summit that drafted the EMS last spring came immediately after the agreement he reached with Soviet President Brezhnev to begin a new level of entente, with a 25-year economic cooperation and trade agreement between West Germany and the USSR. France, too, is aiming to triple its Soviet trade in the short term.

The USSR is thus *de facto* party to establishing the EMS, although full-fledged political support for it is still a matter of fierce contention in Soviet circles. But in advance of a many-fold increase in East-West trade as part of an EMS-centered revitalization of trade financing and industrial expansion in every part of the world, in advance even of the realization of those large projects contracted during the past two years of renewed East-West European trade, the Soviet sector is constrained by the pre-EMS state of affairs. In spite of being the major area of uninterrupted industrial growth in the world, it has had to reduce the rate of that growth throughout this decade.

There are several circumstances forcing a slow-down.

Table 1. Soviet growth indicators in the 10th Five Year Plan

(1976-1980)	National income	Industry	Industry A: means of production	Industry B: objects of consumption	Capital investment
8th FYP (1966-70)	41	50	51	50	21
9th FYP (1971-75)	28	43.3	45.7	36.7	42
10th FYP (1976-80)	26	36	38	32	26
1976	5	4.8	5.5	3	4
1977	3.5	5.7	6	5	3
1978	4	5	5.3	4	3
1979 (plan)	4.3	5.7	5.8	5.4	4.5
"1980" (gap)	7	10.6	10.8	11.7	9.6

Five-year growth rates for 1966-1975 are shown at top of table, for comparison with slowed growth in the current plan. The annual rate for "1980" is not a projection, but an indicator of how far off pace plan fulfillment is; it is the rate of growth that would be needed in 1980, presuming plan targets for 1979 are met, in order to reach the five-year target set for the entire 1976-1980 period.

Military spending takes a bite out of the Soviet budget — officially given as 17 percent. If support industries were itemized, the proportion would be greater. The military, furthermore, requires a large part of the highest-technology industrial resources of the country. The international situation — chiefly the unsure outcome of Strategic Arms Limitation Talks, dangerous crises in the Middle East and Southeast Asia, and a British-led drive for rearming NATO — has mandated an increase in Soviet sector military spending, which was just voted up by the Warsaw Pact leadership and made public after Romanian President Ceausescu publicly balked at going along.

For two decades, the chemicals industry has been the most frequent victim of "trade-offs," in favor of military hardware, within the Soviet economy. There are severe lags in chemicals as a result. Mineral fertilizer production has grown at less than half the rate charted for it during the 1976-1980 period.

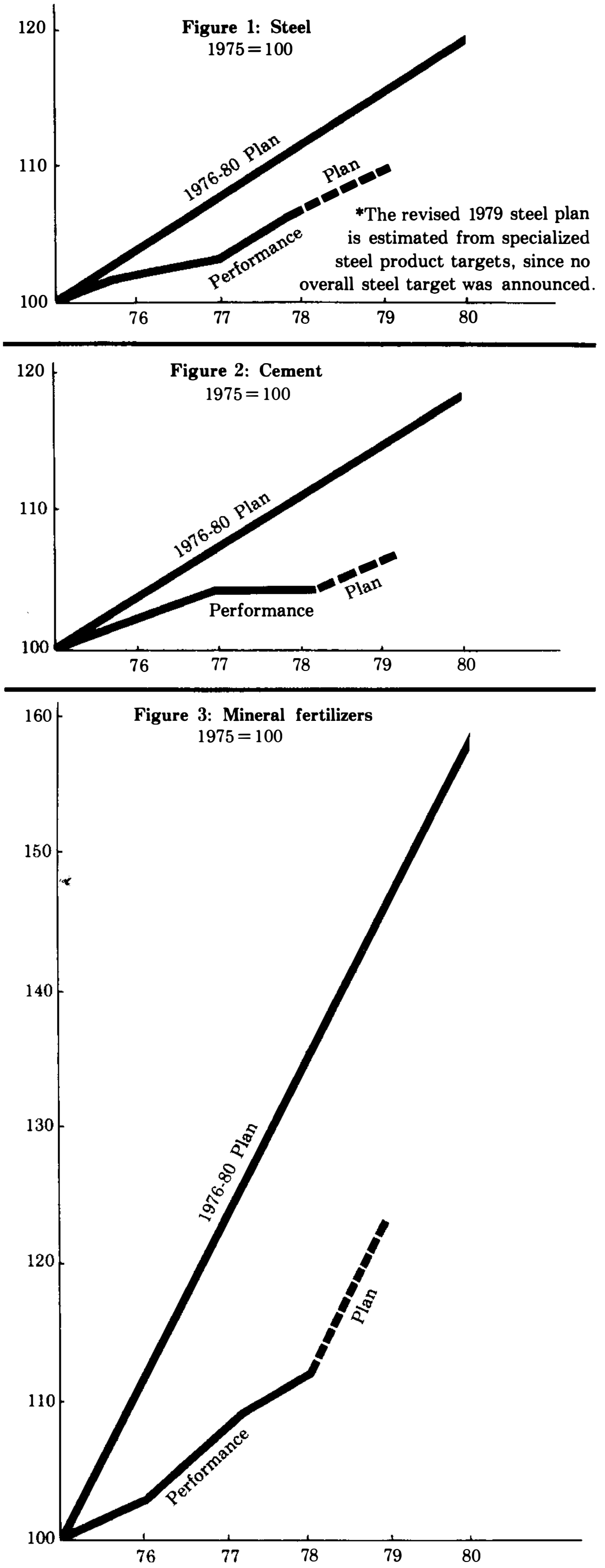
Chronic bottlenecks drain investments into "sinkholes" where they have only a short-term maintenance effect and are lost to industries which could lay the basis for future growth. The most notorious areas of loss are agriculture, construction, and transport. In the latter two, problems are compounded by a proliferation of bureaucracies designed to solve the tangles, but actually, according to Soviet exposes, engaged in passing the buck to each other.

Agriculture, where 30 percent of the Soviet labor force is tied up, is a special, urgent situation where a "one-time" large infusion of capital, together with a vigorous political effort among the relatively backward rural population, is required to vault productivity to the level of United States agriculture.

East-West trade has not taken off, for two reasons. Political obstruction, especially in the case of Soviet-American trade (see *Executive Intelligence Review*, Vol. V, No. 43, Nov. 7-13) is one. The other is the overall contraction of world trade. The market for Soviet exports in the advanced Western countries has shrunk due to the recession. In the developing sector Soviet exports have grown less than they could, if the West were to promote large-scale development in the Third World in collaboration with the Soviets.

Without more revenues from exports, the Soviets have to borrow more than they want to in hard currencies in

Mid-course revision in the Soviet Five Year Plan in key industries



order to finance imports of plant and equipment from the West. The result is that the portion of total Soviet trade that is carried on with other socialist economies, after declining from 65 percent in 1970 to 56 percent in 1975 and 1976, has now rebounded to 58 percent in 1977, 59 percent in 1978, and a planned 61 percent next year. Soviet trade with the advanced sector capitalist countries declined accordingly.

The EMS has the potential not only to reverse that trend by a rapid increase in Soviet-West European trade, but to unclog the USSR's chronic bottlenecks. That is what would result from a global application of EMS principles, i.e., long-term low-interest credits for industrial development, to East-West and triangular East-West-South trade.

An East-West trade policy of that sort is not, as the Brookings Institution would have it, doing favors for the Russians. As in the precedent of the 1922 Rapallo treaty between Soviet Russia and Germany, advantages are already accruing to West Germany and France thanks to their Soviet agreements: not only orders for industrial exports, but enhanced opportunities for political stability.

Corresponding agreements between the two greatest economies and greatest military powers, the USSR and the United States, could begin with the $30 billion, 28-project "shopping list" the Soviets handed to U.S. businessmen at the Moscow meeting of the U.S.-USSR Trade and Economic Council this month.

Soviet President Brezhnev keynoted the Party Central Committee plenum with his second major economic policy report to the Central Committee this year. As in his July plenum speech, which was devoted to agriculture, he defined both short-term and broad, long-term goals.

The Soviet economy, Brezhnev began, has reached "a stage which is new in essence — the construction and development of a number of territorial-production complexes, especially in the eastern parts of the country." These complexes are industry-centered urban growth areas, places in Siberia where entire new cities are under construction.

In the first three years of the current Five Year Plan, Brezhnev reported, these development projects will have been responsible for the entire national gain in oil production, almost all the increase in natural gas output, and a significant part of growth in the electric power industry, mining, and truck and tractor production.

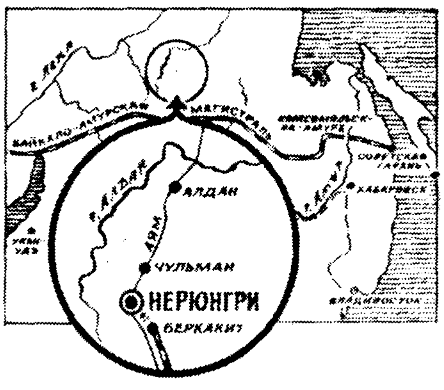
Creation of these and other projects, however, has been limited by serious problems in basic industry: metals and fuel. Brezhnev said that investments would have to be concentrated in those two sectors to the tune of 23 billion rubles in 1979 (17.4 percent of a total of 132 billion rubles in planned capital investments), compared with 50 billion rubles over the preceding three years (13.7 percent of total).

Together with the energy and metals sectors, Brezhnev placed transport as a priority for capital investments, as part of a policy to rectify the national investment structure. (A 26 to 27 percent portion of investments goes

City-building in the USSR

During 1978, the Soviet Communist Party Central Committee weekly Ekonomicheskaya Gazeta *switched the focus of its cover stories away from single branches of industry viewed nationally, in favor of a series of feature articles on territorial-production complexes. Mentioned by Leonid Brezhnev in his speech this month as a radically new phenomenon in Soviet industry, these complexes are industrial expansion projects organized as integrated units. In most cases, they are new cities, built from the bottom up — a smaller version of the "nuplex" city-building concept.*

Because urban construction "from scratch" will be increasingly featured in Third World development under the expansion policies to be begun via the European Monetary System, the Siberian example is important to study. Here are sketches, using the material from Ekonomicheskaya Gazeta, *of two city-building projects in Siberia:*



The South Yakutsk complex

Centered on the new city of Neryungri, the area is at the north end of the most important cross-line shooting off from the Baikal-Amur Mainline (BAM), the second trans-Siberian railway, now under construction. Potentially the locus of Soviet-Japanese-American cooperation on a vast scale, when the multi-billion-dollar Yakutsk natural gas project eventually gets under way, the South Yakutsk complex at this time is based to the inefficient agriculture sector, which is a serious drain but cannot be reduced without immediate undesirable effects on food supplies.) He then discussed transport at greater length, as a dangerous point of losses and leakage of grain and other farm products. A special Central Committee commission on transport was formed earlier this year.

Heteronomy and bottlenecks

Investments in 1979 will be dispersed over fewer projects, Brezhnev announced. This reflects, in part, an increased emphasis on modernization and reconstruction of existing capacity as opposed to building new plant, especially in the older industrial areas in the European USSR. It is also an assault on the heteronomy which prevails in the labyrinthine construction industry bureaucracies, where instances of building fences in vacant lots in order to fulfill plan targets of fence footage have been reported in the Soviet press. By reducing the number of construction sites, the plan aims to outflank such maneuvers and reduce the lead-time on new projects.

All of these measures were dictated by an aggravation of existing problems in the first three years of the plan. "The situation is improving too slowly in capital construction," Soviet planning chief Nikolai Baibakov reported. "The volume of construction projects not completed is growing without justification, while the new capacity is going more slowly than planned. The plan is not being met for railroad transport of a number of important commodities. The targets for introduction of new technology in the national economy are not being met fully." Brezhnev stressed "the personal responsibility of leading economic cadres" at all levels, warning that "organizational measures" would be taken — i.e., heads would roll — if Central Committee decisions were not implemented promptly. He summed up the war on bottlenecks and bureaucracies:

> "The question arises of how to explain that in spite of our clear and major successes in economic construction and the gigantic growth of the scale of our economy, we are unable for such a long time to free ourselves from those bottlenecks, which keep us from advancing ever more rapidly and dynamically. Each concrete shortcoming can be explained by individual reasons. But here, at the Central Committee plenum ... we must approach the essence of the question and look at what is fundamental. And what is fundamental is that the economic bodies, ministries, and agencies are slow in shifting the entire economy into the mode of intensive development.

Intensive development

"Intensive development" refers not only to the concentration of resources but to mechanization. The plan anticipates a drop-off in growth of available labor in the 1980s, when fewer young workers will be entering the work force, due to demographic patterns associated with the loss of 20 million Soviet citizens during World War II.

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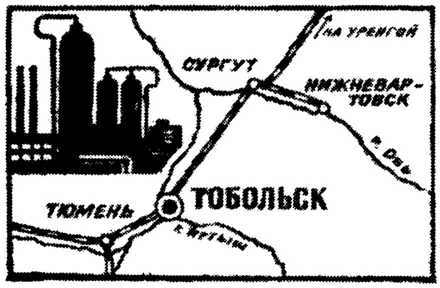
on coal mining. By 1983, the Neryungriskii coal cut will be producing four million tons of fuel coal and nine million tons of coking coal annually, up from the present two million tons total mined in the area. A coal refining factory has already been built. Coal from Neryungri is dispatched by the BAM and the Transsiberian to power stations throughout the USSR and to the Pacific Coast for export (the Japanese have invested in the railroad and will buy coal). A new power station is also under construction in the city itself. Other factories are slated for the next decade: a house-construction plant for 100,000 square meters of apartments per year, a reinforced concrete plant, a ceramics factory, a mechanization center for the coal industry, and food industry installations for meat, poultry, and dairy products.

The Tobolsk complex



Unlike Neryungri in the Far East, Tobolsk is one of the old cities of western Siberia. Situated on the Irtysh River, a tributary of the great Siberian River Ob, it is right in the center of the Tyumen district, where the greater part of increases in Soviet oil production has come from in this decade. The Tobolsk project hinges on a petrochemicals complex, in which West German investment is planned under the 25-year cooperation agreement of May 1978. Because of its geographical advantages, reports *Ekonomicheskaya Gazeta*, Tobolsk "was chosen to be the location of a new center of the petrochemicals industry"; supplies other than the locally extracted oil can be brought in by river. Hence a second feature of the complex is the complete reconstruction and enlargement of the city's river port on the Irtysh. The refinery itself will be built in stages, so that it can supply semi-finished products before the entire range of processes is available in Tobolsk. A new power plant will be constructed simultaneously. On the opposite bank of the river will be "a new, modern city" to house the growing population of petrochemical workers.

It means putting a premium on science and technology.

Siberian development is science-intensive, requiring a constant generation of new technologies to withstand climatic and other unique conditions in the Far East. The long-term agricultural program for raising meat and other food consumption in the Soviet Union to "scientifically established norms," as Brezhnev promised last summer, centers on mechanization and the construction of agro-industrial complexes, or farm-food factories.

In capital construction, Soviet planning chief Baibakov noted that the portion of investments going to machinery (equipment) would rise again from last year's 36.8 percent. And in the electric power sector, where overall growth is to be 4.8 percent, high-technology nuclear power generation will leap by 21 percent.

Industry in 1979: gap to be narrowed

The growth rates announced by Baibakov for 1979 are higher for the key parameters of National Income and Industrial Production than in 1978, but 1978 was one of the slowest years for Soviet industry since the war (see Table I). It appears that the 1979 plan will be considered a success if the gap between the original five-year course charted for 1976-1980 and what has actually been accomplished does not widen any further, as it continued to do in such industries as construction materials and chemicals this year (see Figure 1, 2, and 3).

The uncertainties facing the economy were underscored when planning chief Baibakov failed to give overall quantitative targets for some industries, including steel. The 1978 steel plan of 154.6 million tons will not be met, since the projected year-end result is at best 152.5 million tons.

The basis for setting higher overall growth rates for 1979, as well as for the surpassing plan fulfillment in 1978 (despite the shortfall in key sectors such as steel), is not yet an anticipated long-term recovery. Both reflect the immediate impact of a vastly improved agricultural performance in 1978, which has had ripple effects throughout the economy. Brezhnev announced a grain harvest of 235 million metric tons, the highest in Soviet history and almost within the range set for the *next* Five Year Plan, 1981-1985. Rebounding from the disappointing 1977 harvest of 194 million tons, the crop signals a better chance of recouping from the 1976-1978 slide of the plan pace.

The farm sector, however, cannot be counted on to jolt the Soviet economy forward. Recapturing the high growth rates of the 1960s (five-year industrial growth went from 50 percent in 1966-1970 to 43.3 percent in 1971-1975 to the current period's planned 36 percent, which will not be met) will mean steps to reverse stagnation in the key economic sectors which determine future growth: machine tools, capital construction, energy. This can happen only through the expansion of East-West trade, now playing a marginal role in Soviet growth; imports from the advanced capitalist countries have hovered at the equivalent of only 10 to 11 percent of Soviet investments since 1975.

— *Rachel Berthoff*

The debate over the

As the new European Monetary System moves toward its Jan. 1, 1979 implementation, the months-long debate in the Soviet Union and other socialist countries over the new institution is coming sharply to a head. The fight is between those who see the EMS as a way to implement a "Grand Design" for East-West detente, and those who would push the USSR into the role of a petulant outsider, gloating over what is perceived to be the inevitable collapse of capitalism.

This battle is now raging openly on the pages of the Soviet press. *Pravda*'s authoritative International Week column of Dec. 17 — written by Arkadii Maslennikov, author of numerous recent articles cheerleading the collapse of the dollar — delivered the most powerful blast against the EMS to appear in the Soviet press to date. The fact that Italy acceded to pressure from "the leadership of the European Economic Community (EEC) and local conservative circles," and decided to join the EMS, Maslennikov wrote, "confirms once again that the 'European Monetary System,' like all the policies of the 'Common Market,' is being developed by the monopolies, in the name of the monopolies, and for the monopolies." He went on to cite a spokesman of the French Communist Party that the EMS is a scheme for the domination of Europe by "West German corporations."

In the next day's *Pravda*, a quite different and unprecedentedly accurate analysis emerged. The newspaper's London correspondent wrote that Ireland's entry into the EMS "provoked a shock in London and especially in the financial circles of The City. . . . Dublin's decision unquestionably far exceeds in its importance the framework of a mere 'Common Market' problem. It indicates a most radical step on the road to financial and economic independence by the former British colony, since for the first time the Irish national currency is splitting from the pound sterling, to which it has been linked up to now."

The real story behind the Soviet debate on the EMS first broke in the *Executive Intelligence Review* of Sept. 26 - Oct. 2, 1978. The *EIR*'s Stockholm bureau discovered an article in the July-August issue of the Moscow University *Bulletin/Economics* by A.I. Stadnichenko, a senior economist at the Institute of Oriental Studies of the Soviet Academy of Sciences. Stadnichenko vigorously defended the use of gold in *all* economic systems, and predicted a revival of gold on an international scale in the near future. This is one of the crucial features of the new EMS.

Stadnichenko identified the International Monetary Fund and its political supporters as the main enemies of gold, and labeled the IMF's Special Drawing Rights (SDRs) as their main weapon in the "antigold campaign."

Most importantly, Stadnichenko attacked by name the Soviet economist who has most vociferously backed antigold, pro-SDR policies, G. Matyukhin of the Institute

EMS breaks open

of the World Economy and International Relations (IMEMO). Since the Stadnichenko piece appeared, Matyukhin has authored a major *Pravda* feature attacking the European Monetary System.

After the *Executive Intelligence Review* drew international attention to this debate among Soviet economists, both sides in the fight have upped the ante. The Soviet news agency Novosti this week released for exclusive publication by New Solidarity International Press Service a condensed version of Stadnichenko's article, which we excerpt below.

At exactly the same time, Novosti circulated in its regular wire service an interview with economist Matyukhin, Stadnichenko's bitter opponent, attacking the EMS. Picking up the line which predominates in the British press, Matyukhin commented that "technical problems" will prevent the EMS from functioning as planned. "All these difficulties," he said, "will inevitably have an effect in the future too, because the transformation of the EEC's monetary relations can in no way affect the basis of capitalist production."

Debate matured over years

A review of the exchange of polemics between Stadnichenko and other Soviet economists indicates that this debate built over a period of years, until it jumped from the pages of academic journals into the Novosti features. In earlier writings, up through 1976, Stadnichenko has espoused a gold-backed monetary system, but only in 1977 did he take on Matyukhin as an opponent whose views had to be defeated for the sake of a sound Soviet policy.

This occurred when it became clear to Stadnichenko and his cothinkers that the monetary destabilizations in the West were jeopardizing East-West trade. In a July 1978 review of Matyukhin's 1977 book *Problems of Credit Money Under Capitalism,* carried in the journal *Money and Credit* side by side with a review Stadnichenko wrote, the economist D.V. Smyslov explained the importance of the gold debate: ". . .(This) kind of analysis is also necessary in connection with the practical requirements of the course being followed by the Soviet Union in developing relations of long-term mutually advantageous economic cooperation with capitalist states."

Unlike the Soviet economists who view gold as outmoded today, explained Smyslov, Matyukhin traces the problem to the invention of "credit money" at the dawn of capitalism. Credit money ousted gold, and at the national level, paper money evolved to the point where now a national currency (the dollar) serves as an international reserve currency. Matyukhin's idea of the solution, which he passes off as an "objective" and "progressive" tendency in contemporary capitalism, is the issue of international banknotes by a supranational central bank — hence his fascination with SDR's.

Eastern Europe joins the fray

Now the debate is spreading throughout the members of the Council for Mutual Economic Assistance, the socialist countries' economic community. Proposals are currently on the table for establishing a higher degree of cooperation between the CMEA and the EC — a goal which, if achieved, could serve to link up the CMEA economies to the new European Monetary System. Efforts to secure a cooperation agreement have been stalled for many years.

The issue was taken up by the Polish magazine *Politika* of Nov. 25, which published an article by Michal Dobroczynski that regretted the "artificial divisions" between the two halves of Europe. "The efforts to concert the principles of cooperation among the states of the two groupings," he wrote, "should be aimed not so much at the parochial interests of this or that subregion of the European economic region as at the common interest represented by mutually advantageous, dynamic and comprehensive all-European cooperation devoid of discrimination." While framed as a criticism of the "overwhelmingly technocratic" nature of the EC, Dobroczynski's words might equally well be directed at the opponents of all-European cooperation within the CMEA.

—*Susan Welsh*

Stadnichenko on gold's economic function

From "On the Question of the Evolution of the Economic Function of Gold," by A. Stadnichenko, Novosti Press Agency.

...The Soviet ruble, as a gold unit, has a fixed gold content. Since 1961 it has been equal to 0.987412 grams of gold. During the period between the First and Second World Wars, more than one attempt was made under the initiative of the United States of America to boycott the Soviet Union's gold in international currency transactions. Measures were taken to prevent an increase in the world price for gold, ways and means were discovered to limit the use of gold in international currency transactions in general. The question of gold and of the medium for international circulation became particularly acute during the world economic crisis of 1929-1933.

The crisis particularly crippled currency circulation in the world and did great damage to world trade. During the period from the First World War up to and including the world economic crisis, the largest part of the world's gold reserves were concentrated in the USA, making it the most important financial and economic power of capitalism. The ruling circles in the USA used this circumstance to get out of the crisis by introducing the American dollar into international circulation on the broadest possible level at the cost of other countries.

They based their speculation on the following: Since a considerable portion of the world's reserves of monetary gold was already concentrated in the USA, and since the government forbade private banks and citizens from using gold in international transactions, the dollar would be used extensively. The reality of this speculation was also reinforced in that calculations in dollars between central banks were to be in accordance with the above-mentioned gold content of the dollar. But because the gold content of the monetary unit, in this case the dollar, remained constant, the gold standard also consequently remained constant in transactions between central banks. As the well-known French economist and financier Jacques Rueff said, "President Franklin Roosevelt did not do away with the gold standard in 1934, he reconstituted it. It was understood that it was a special kind of gold standard, only for the central banks."*. . .

The U.S. abandons gold

However, by the middle of the 1960s it became clear that the USA, which allowed itself to be carried away by the arms race, the Cold War against socialist countries, and the Vietnamese war, was seizing on the issuance of excess dollars and the introduction of these dollars into the international currency channels and the reserves of other countries in order to cover its balance of payments deficits. This American currency and financial policy led to the dollar being devalued as an international currency and degraded. The former ratio of 35 dollars to one ounce of gold changed in the sense that the price of gold in dollars increased, even though in the 1960s people attempted to prevent this with the help of the so-called gold pool that was established on the initiative of the USA.

The price of gold overthrew the controls on it, and towards the end of that decade it became clear that even the "goldpool" itself, to which the leading capitalist countries belonged and which had the task of controlling the price of gold, had not grown. The official price for gold and its market price were finally separated from each other: the former remained unchanged, while the latter continued to increase.

Towards the middle of the 1960s, the USA was first presented with the problem of a lack of gold. According to the law that was valid at that time in America, all of the bank notes and bank deposits that were in circulation had to have 25 percent of their value covered by gold in the form of an official gold reserve up until the time that they were claimed. But when the amount of money issued increased very sharply at that time in conjunction with the Pentagon's war adventures, then the danger existed that the amount of gold that was needed to cover 25 percent of the value of the bank notes in circulation could exceed the USA's entire gold supply. The law would then have shown itself to be unrealizable. As a result of all of this, the question was posed about first suspending the law requiring a gold reserve cover for bank deposits, and later for the banknotes in circulation inside the USA.

The suspension of the law requiring the 25 percent cover for deposits first, and then for the banknotes circulating in the USA, was represented in the middle of the 1960s as a measure that had secured the release of gold reserves in order to guard against the unhindered exchange of the dollar for American gold in case the central banks of other countries would demand this. In order to build up a foundation for the thesis about the allegedly self-initiated demonetization of gold, there was increased propaganda for the idea about the creation of a supernationally controlled currency ("paper gold"), which was to be issued under the leadership of an international center. The International Monetary Fund, whose foundation dates back to the 1944 Bretton Woods conference on currencies and finance, was to function as such a center. Since that time the IMF was under the aegis of the USA. As a prototype for such a currency, a so-called Special Drawing Right (SDR) was to be introduced into the IMF's range of operations. It was to play the role of a world monetary credit, that would replace gold. . . .

. . . At the end of the 1960s, the demonetization of gold became the number one theme in the Western press, as the gold price rose in all the world markets. . . .

The IMF and the SDR

The creation of the SDR in 1970, originally in the amount of around 3.4 billion dollar units of SDR (it was equal to the dollar before the dollar's devaluation) should, according to the view of the IMF director, have steered the disputes about the dollar's hegemony and the demonetization of gold (i.e., its change into the monetary function of a cash commodity) onto the road toward the discussion of the problems of the creation and gradual development of the supernational currency. This actually did happen in reality. Many economists considered the SDR to be a kind of embryonic form of a world currency and tried even more zealously to prove that even if gold had not yet forfeited its functions as money, it was gradually forfeiting them.

There were adherents of this viewpoint even among Soviet economists. And in order to give it even greater persuasive power, a couple of them even seized on the version that the gold standard had generally ceased to exist a long time ago. They tried to convince the reader that there had been a collapse of the gold standard as a consequence of the world economic crisis from 1929-1933. If one accepts this version, then it follows that gold had forfeited its monetary functions for over 40 years and that in the meantime capitalism had learned to get along without gold in its currency and financial transactions.

*"The Role and Rule of Gold: An Argument," Jacques Rueff and Fred Hirsh, *Essay in International Finance*, 1965, N. 47, June, International Section, Department of Economics, Princeton University, New Jersey.

Naturally, in reality something different has occurred, and this is proven, for example, by the postwar system of the Bretton Woods gold currency standard. . . .

It is understood that the value calculated for the SDR is dependent above all on those currencies that make up the greatest section of the "currency basket," and first of all, on the U.S. dollar. But because the dollar is a tool of the USA's expansionary policy, which is characterized by a deficit in the balance of payments, this means that the SDR is also an instrument of this policy. The abrupt currency fluctuations of a string of other currencies also influence the value of the SDR, which has changed from being a currency stabilizer and a currency "numerical factor" into an unstable, abstract index of the chaotic changes in currency values. . . .

The SDR's failure

The SDR could under no circumstances become a world currency with the money function of gold, which according to Karl Marx is the form in which exchange value is conserved as value. As life teaches us, the most extreme instability in capitalist circulation does not at all hasten the "demonetization" of gold, and the transition of international settling of accounts to an artificial form of international, supernational money. The facts show that, on the contrary, the role of gold as a world currency has even increased in recent years. That is clear first of all from the daily increasing price of gold, which is expressed in dollars and other currencies. The attempt to stabilize the gold price through the sale of a portion of the gold at the IMF's disposal has failed completely. . . . Such auctions have become a standard event that does not noticeably influence the free market in gold. The circulation of gold as the money metal has expanded, particularly in the U.S., whose official propaganda cried for "demonetization" of gold louder than anyone. Today settlements are carried out in gold daily, as the business in the IMF's official gold auction has doubled and then quadrupled.

The growing popularity of gold is doubtless traceable to fear of an inflationary upset in the buying power of the dollar. Under such conditions the current Administration of the USA regards it as no longer possible to obstruct this fact, and has therefore abolished all restrictions on gold operations, that had previously been imposed under the slogan of "demonetization.". . .

How and in what form the further strengthening of the money function of gold will proceed in worldwide terms will be shown in the near future. But it is a fact that this process is going ahead, and that all theories about the creation of an artificial supernational world currency, etc., will disappear as suddenly as they appeared.

U.S. business: more East-West trade

"How can Carter be so stupid, when the solution to the U.S. trade deficit and depression conditions in the United States is staring him directly in the face," a member of the recent U.S. trade delegation to the Soviet Union asked this reporter. "It's no longer just irritation with the Administration on this question," said another, "it's exploding rage."

The sentiment was typical among the 400 U.S. businessmen who attended a week-long trade conference in the Soviet Union in early December put together by the U.S.-U.S.S.R. Trade and Economic Council. The anger of the businessmen was easy to understand for anyone who takes a cursory look at the relationship between foreign trade — especially with the Soviets — and industrial conditions within the U.S.

Those nations which are most rapidly expanding their Soviet trade base are the same nations that are advancing the technological output of their own economies at a growing rate. West Germany picked up on \$5.5 billion in Soviet trade during 1977 and Japan grabbed up another \$3.3 billion. The U.S., by contrast, exported only \$1.8 billion to the Soviets in 1977, with \$1.3 billion of that in agricultural products.

Without immediate and massive new markets abroad for U.S. industrial technology — and the biggest opening market for high technologies is the Soviet Union—investment and industrial output within the U.S. will continue to decline. The Dec. 25 issue of *U.S. News and World Report* predicts that based on the present rate of U.S. exports, the 1970 output of U.S. industry will change at a rate of zero, or decline, and that unemployment will jump from 5.8 percent in 1978 to 7.0 percent in 1979. Corporate profits, they predict, will go down 8.3 percent.

\$10-15 billion on the drawing boards

The Soviets are aware of the American dilemma. Soviet President Leonid Brezhnev told the U.S.-USSR conference, with U.S. Treasury Secretary W. Michael Blumenthal and Commerce Secretary Juanita Kreps present, that the Soviet Union had already on the drawing boards a list of 28 big projects worth \$10-15 billion that they were exploring with American companies. But, Brezhnev added, "I must tell you directly that it will be difficult to realize many of the projects without eliminating U.S. discrimination against the Soviet Union in matters of trade and credits. We can trade with you, of course, under the present conditions. But no substantial increase in trade should be expected in this case."

Secretaries Blumenthal and Kreps attempted to calm the businessmen by assuring them that "the attitude of the United States government toward trade is changing," according to C. William Verity, chairman of Armco Steel, Inc. and cochairman of the U.S.-USSR Trade and Economic Council. As a gesture, reported Verity, Kreps promised that 22 oil-technology export licenses which had been held up since Aug. 1 were being approved immediately — freeing about $65 million worth of orders. But this is just a drop in the bucket compared to the offered $10-15 billion, and the corporate leaders were very dissatisfied with both promise and gesture.

Repealing Jackson-Vanik

David Rockefeller, chairman of Chase Manhattan Bank, held a press conference in Moscow during the trade conference where he expressed frustration over the "present sentiments" of the Administration. He challenged the businessmen and Administration representatives at the conference to carry out the will of the conference by going back to the U.S. and fighting for repeal of the Jackson-Vanik Amendment to the Trade Act of 1974 which denies the Soviets Export-Import Bank credits because of strict emigration requirements supposedly directed against Russian Jews.

Rockefeller called expanded trade with the Soviets "a necessity" and said that Jackson-Vanik and similar trade restrictions are actually "bad for everyone, including the Jews in the Soviet Union." A Rockefeller aide asserted later that it is likely Soviet restrictions on emigration might be eased as a result of better trade and political relations with the U.S. and not vice-versa, and that the Administration's current "leverage policy" was actually "setting up Soviet Jews who have strong family ties or other relations with American Jews who are a major lobbying force against both SALT and trade with the Soviets for retaliation."

"The Soviet state provides these Jews with their education," the Rockefeller aide said, "so maybe the Soviets don't see it much in their interests any more to give them that — since their actions are hurting Soviet economic development."

"Leverage," not trade

The "leverage policy" Rockefeller attacked was developed by Samuel P. Huntington, close confidante of National Security Advisor Zbigniew Brzezinski. Huntington published an article last fall in *Foreign Policy* magazine advocating the use of trade as a weapon to force the Soviets to "come to terms" with the U.S. on certain foreign policy objectives.

Huntington does not even mention what kind of economic effect on the U.S. his leverage game is expected to have. In fact, other than using it as a weapon, he seems not to be interested in U.S.-Soviet trade at all. Huntington argues that it is a long-term benefit to the U.S. to keep exports to the Soviets low because the Soviets might use these technologies to develop their own supply of goods and begin dumping them on Western markets. "German chemical and petrochemical firms are now facing stiff competition in Western Europe from underpriced products of the factories they themselves helped build in the USSR in the early 1970s," Huntington says. He does not address himself to why the West Germans are now vastly expanding Soviet trade, nor does he discuss the European Monetary System's role in encouraging even greater expansion of East-West trade Europe-wide.

W. Averell Harriman, long-time presidential adviser on Soviet affairs and wartime Ambassador to the Soviet Union, delivered a blistering attack on the Brzezinski-Huntington trade policy in a speech to both Soviet and U.S. delegates at the conference. He declared that trade relations were as important as strategic arms agreements and that trade should not be "linked" in any way with Soviet emigration or other domestic or international Soviet affairs. "Increased bilateral trade "will help stabilize relations," he said, "and it is an outrage that we do not have normal trade relations with the second greatest country in the world."

The anti-Soviet and Zionist Lobby elements in the Congress have already picked up on the Huntington-Brzezinski directive. A bill titled "Technology Ban Act," which was thrown into the House hopper last September by Representative Clarence Miller (R-Ohio) with 77 cosponsors, and which would have effectively ended all high-technology exports to "communist countries," is now being rewritten and is slated to be presented to Congress again this January.

"Not broadly anti-Communist"

While the bill didn't make it to first base last session, its supporters are now promising to make a "big fight" around it after Congress reconvenes. The bill has essentially been taken out of Miller's hands and is now being "reshaped and rewritten" by Lester Wolff (D-N.Y.), who is close to the Israeli lobby in Washington and is a member of the International Relations Committee, where the bill will first be considered. Wolff's office said that he is "working closely with Senator Jackson (D-Wash.) on the 'new' bill" and that the revisions would probably take into account the new relation between the U.S. and China. "It will be more focused specifically on the Soviet Union," the aide stated, "and will probably eliminate the broad 'anti-communist thrust."

In other words, the bill will allow the U.S. to enter into trade with China, but will drastically restrict exports to the Soviet Union — where high technologies are in demand and where the contracts would far exceed anything the Chinese could offer.

The bill's sponsors have also been hinting that they might be willing to "make a deal with the Administration on SALT" — i.e., that they will let a new SALT treaty go through providing the Administration does not oppose their bill. And, according to several pro-Soviet-trade business representatives, the Administration does not at this time oppose it — or at least refused to state its opposition when asked.

— Maureen Manning