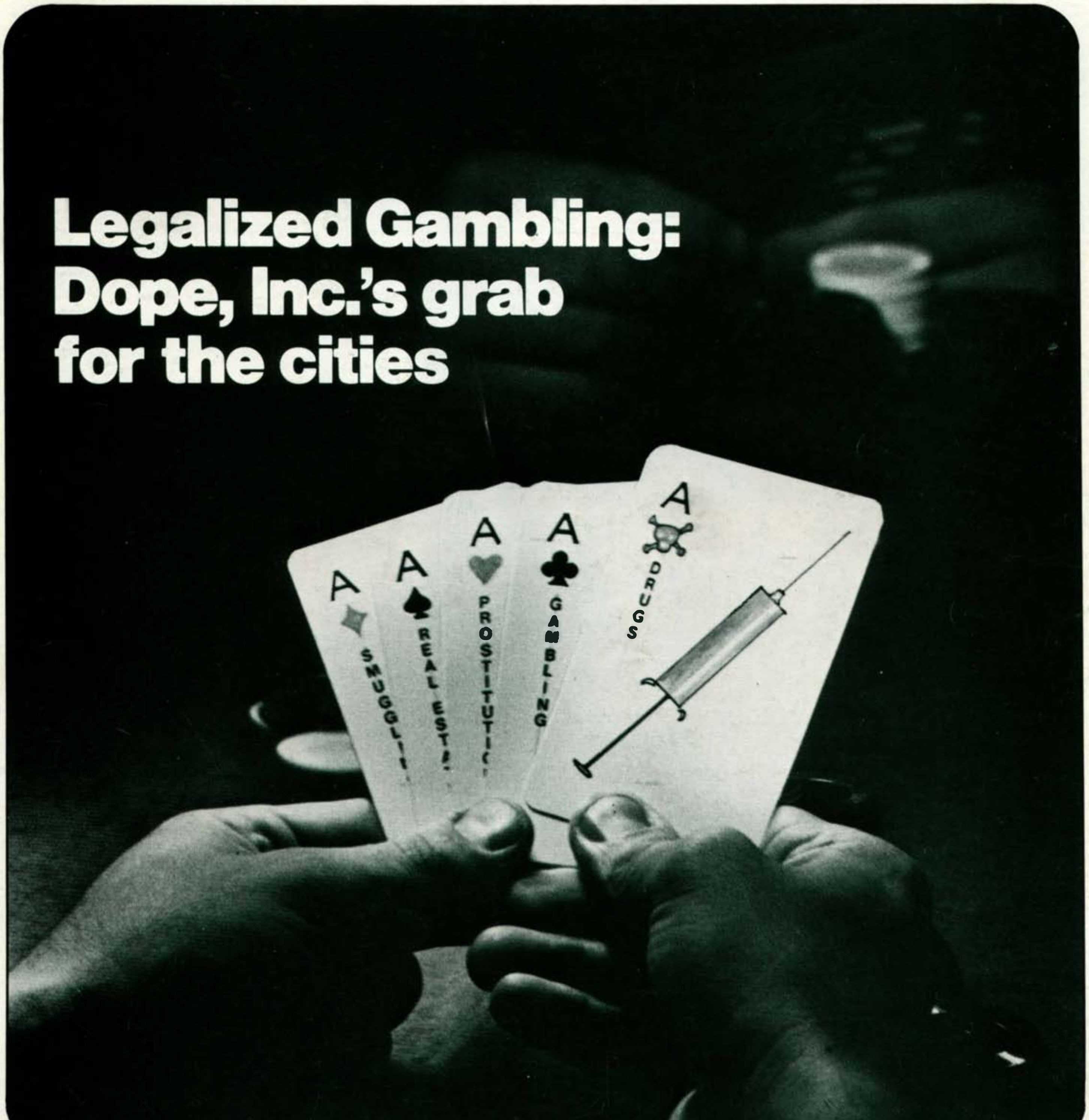
EXECUTIVE INTELLIGENCE REVIEW

Exclusive preview: Havana Nonaligned summit

August 21-27, 1979



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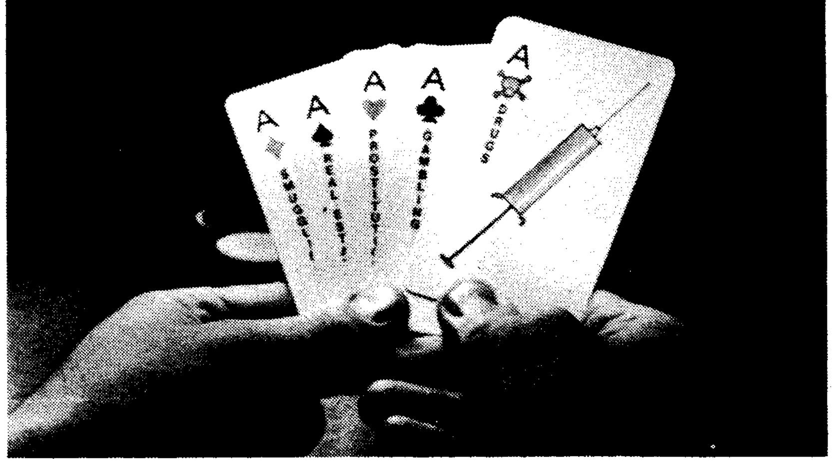
EXECUTIVE INTELLIGENCE REVIEW

Van Zwaren

Legalized gambling: Dope Inc.'s grab for the big cities



The push for legalized gambling is on: with New York the key test case, a network of British-linked investment banks, politicians, and organized crime figures is seeking to turn America's major industrial cities into playgrounds for the rich. This week's U.S. REPORT tells you what states have been targeted, who's backing gambling, and how they intend to get their plans approved. Plus: profiles of leading corporations poised to cash in on the gambling spree, and a look at the real estate machinations accompanying it. What you'll learn about some of America's prominent corporations and politicians in this package will be a real shock.

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EXECUTIVE INTELLIGENCE REVIEW

IN THIS ISSUE

Nonaligned summit in Havana

Twenty-five years since its founding at the Bandung Conference, the leaders of the Nonaligned Movement nations meet next month in Havana—for the first such gathering in a socialist sector capital—to face a host of issues, some new, some left unsettled since the Colombo Nonaligned summit in 1976. Our THIRD WORLD report this week, prepared by Latin America editor Dennis Small and Asia editor Daniel Sneider, looks at these issues: which Cambodian delegation to seat, what stance to adopt on the Zimbabwe-Rhodesia question. And the overriding question: how can Third World nations achieve economic parity with the West.

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The myth about equilibrium economics

This week's SPECIAL REPORT, framed to accompany our Third World coverage, features the speech given by Lyndon H. LaRouche at the Fusion Energy Foundation conference on the industrial development of Africa, held in Paris in June. In an incisive and profound analysis, LaRouche, the author of the noted International Development Bank proposal and a leading advocate of Third World debt moratorium, shows why the policies of the neo-Malthusian "Cambridge school" of equilibrium economics must inevitably lead to genocide in the developing sector—and shows why the Riemannian economic model he helped develop offers the only scientific approach to development problems.

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THIS WEEK

ECONOMICS

U.S. REPORT

THIRD WORLD

Vol. VI No. 33
August 21-August 27, 1979

Japan under Ohira

Now more than six months into his government, Japanese Prime Minister Masayoshi Ohira is surprising those who thought that the traditional give and take of Japanese power politics would keep him in check. The most "American" of postwar Japanese leaders has begun to swing Japanese foreign policy firmly into the Anglo-American camp. And, profoundly disturbing to Japanese business leaders, he has scrapped the economic principles that have shaped Japan's postwar "economic miracle" in favor of Schachtian recipes prepared by the U.S. Brookings Institution. Will Japan find its way out of the Ohira mess? See this week's ECONOMIC SURVEY.

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August doldrums

Bowing to the pressures of inactivity on Capitol Hill, *Executive Intelligence Review's* Congressional Calendar column will be in recess for this issue and the next, and will reappear after Labor Day. *Executive Intelligence Review* will appear as usual next week, but will skip the issue which would normally appear the week of September 3. Normal publication will resume the following week.

Due to limitations of space, our third installment of Roy Harvey's award-winning series: "Chicago Gangs—Who Benefits?" does not appear in this issue. The series will continue next week, featuring Harvey's report on the U. S. Government-funded "school for crime" conducted by leaders of the Blackstone Rangers street gang.

When Israel runs Washington

The immediate reaction of Arab governments to the Aug. 15 resignation of U.S. Ambassador to the United Nations Andrew Young was that "as long as Jimmy Carter is in office, Israel runs the United States."

Reportedly, Young was caught in a lie about his meeting with the permanent representative of the Palestine Liberation Organization, Terzi, to discuss substantive U.N. issues. State Department policy forbids such contact until the PLO agrees to the terms of United Nations Security Council Resolution 242, affirming Israel's right to exist.

Young admitted to the Israeli ambassador that the meeting had indeed taken place, although he had told the White House and State Department that he had only encountered Terzi by accident and exchanged only social amenities. An uproar forced Young's resignation. Then, headlines proclaimed that he was caught by Israeli foreign intelligence, the Mossad, which had "bugged" his conversation with the PLO representative at the residence of the Kuwaiti ambassador.

The Rev. Jesse Jackson immediately declared that "American Jews ... would suffer a political backlash" and that race relations would deteriorate to a new low (see *FACTS BEHIND TERRORISM*). The Zionist lobby maintained that Young's behavior really betrayed a surreptitious "tilt" in U.S. policy toward the Arabs, signifying that Jews could no longer trust the Carter administration.

Jesse Jackson's statements indicate, the Young flap will be used here as fuel for the race-riot scenarios in which our Secretary of State is a past expert. Cyrus Vance oversaw the Johnson administration's "Operation Garden Plot" that led to the urban riots of the 1967-68 period. Jackson's outrage against Israel is more than questionable, given his own—and Young's—multifaceted connections to the Zionist lobby.

Internationally, behind the charade of a U.S. "tilt" toward the PLO there is a real conspiracy. As announced quite openly during last month's terrorism-planning conference in Jerusalem (*EIR*, July 17-23), the conspiracy counts on escalating Palestinian terrorism in the Middle East and beyond. It also counts on the kind of obstreperous falling-out of Washington-Jerusalem relations that we have all seen paraded through the press during the past two weeks.

The combination of a wave of Palestinian terror and a "breakaway ally" scenario via à vis the United States, would open the way for Israel to launch a new war against Syria and Iraq. This, according to the best estimates of Arab military intelligence experts, is exactly what Jerusalem plans—by October or November of this year.

The New York Council on Foreign Relations crowd exemplified by George Ball, who laid out such a script in the Washington Post Aug. 14, sees as the only means for foisting energy auterity on the reluctant American public.

Key to the whole gameplan is PLO leader Yassir Arafat, before whom the U.S. has been dangling a revision of Resolution 242 that would not include any guarantee of an independent Palestinian state, which has always been the bottom line for Palestinians. Were the PLO to accept this, the radical wing—itself infiltrated by the Mossad—would launch terrorism in "protest" against Arafat's sellout. The PLO's General Council, meeting in Damascus the weekend of Aug. 11-12, voted to reject any such substanceless revision, in a slap to Arafat's diplomatic maneuvers and to his recent clamor about Arabs using the "oil weapon."

Is it any accident that days later, the Andrew Young affair erupted?

—Nora Hamerman

The Week in Brief

A new Cuban missile crisis seems to be under active consideration at Foggy Bottom. On Aug. 16 State Department Spokesman Tom Reston expressed official "concern" over the presence of the Soviet naval task force in the Caribbean.

The previous day, syndicated columnists Evans and Novak charged that a Soviet naval task force is entering America's Caribbean Sea in a "provocative" attempt at "a world-wide political coup: humiliate the United States." The column coincided with the release of a report in British-naval intelligence-authored Janes Fighting Ships claiming that the "alarming reduction of U.S. and allied naval power makes the West vulnerable to Soviet blackmail."

Cyrus Vance's top errand boy, Phillip Habib, is on a banana boat run of the former British colonies of the Caribbean to drum up support for joint action against Cuba, the "flyspeck" island of Grenada, and Nicaragua.

Nor has the issue been lost on the Kissinger crowd—which calls the tune for Messrs. Evans and Novak. Kissinger's Georgetown Center for Strategic International Studies has organized a week-long show for American conservatives Aug. 19-24 on the need to create a South Atlantic branch of NATO to stop the Russians.

* * *

Are the new "third" parties part of the plumber's operation run by the Council on Foreign Relations team we exposed in our cover story last week? It certainly smells that way. Both the Citizens Party of Barry Commoner, and the Libertarian Party of Murray Rothbard, trace their origins to an outfit called the "Fund for Peace."

The Fund has a project called the Center for National Security Studies directed by Morton Halperin. Halperin was the keynote speaker at the recent New Hampshire gathering of the Libertarian Party and writes for its monthly journal, *Inquiry*.

As for the Citizens Party, Barry Commoner was until recently a board member of the Fund for Peace, and Peter Weiss—a major Citizens Party funder—still is.

A trustee of the Fund for Peace is the wife of Seymour Topping, the man we identified last week as the *New York Times* editor expected to devote page 1 space in the *Times* to a libelous article against presidential candidate Lyndon H. LaRouche, Jr.

* * *

The true story on the "giant oil spill that ate Texas" has finally come out. According to technicians of Mexico's state oil company Pemex, the oil waters lapping at Texan shores are the result of a runaway oil well ... in Louisiana!

Meanwhile, the Mexican foreign ministry issued an official communiqué warning that any U.S. ships discovered within 12 miles of Mexican shores will be considered in violation of Mexico's territorial sovereignty. Such ships have reportedly been sighted in Mexican waters "Inspecting" the oil spill. The Mexican communiqué notes that Washington has failed to take official responsibility for the ships' presence and calls on all nations to honor international law.

* * *

One of Italy's best known politicos, parliamentarian Giacomo Mancini of the Italian Socialist Party, came under attack again for his alleged support for terrorists.

The scathing polemic against Mancini appeared on the front page of the official Communist Party daily, Unita on Aug. 14, and signals there will be no lull in the fight over terrorism's backers in high places with the advent of the Cossiga government. Premier Francesco Cossiga himself is believed to be sympathetic to their cause.

Senator Ugo Pecchioli, a member of the Communist Party directorate, wrote that "Comrade Giacomo Mancini has the virtue of clarity. We have read that, intervening recently in the debate of a radical circle on the role of the press in covering the judicial investigation of terrorism, he demanded 'disciplinary action' against Judge Calogero, calling him an 'insane lunatic' in a 'tragic marriage' with Judge Gallucci."

Calogero and Gallucci are, respectively, the Paduan and Roman magistrates whose campaign to lock up the intellectual masterminds of the Moro crime surfaced evidence of the collusion of Socialist Party leaders, particularly Mancini. Police disclosed this week that a hideout of the Red Brigades, where Mancini's former son-in-law was recently arrested, contained the cell in which kidnapped statesman Aldo Moro was imprisoned last year.

* * *

How to make the Northern Irelan situation even worse seems to be what Britain's Thatcher government has in mind, on this tenth anniversary of the arrival of British troops there. The plan the Tories are discussing is a Rhodesia-style settlement, eventually leading to an "independent" Ulster in the context of the Irish Republic rejoining the British Commonwealth.

As EIR detailed in a June issue, independent Eire has the fastest-growing economy in Europe; Thatcher's Britain (see our weekly BRITAIN column) has the fastest-sinking one. Irish Prime Minister Jack Lynch, currently the chairman of the EEC, has backed the Euro-Arab dialogue initiated by France, to which the U.K. has been adamantly opposed.

Conditions for a bloodbath are now being created by Protestant paramilitary groups and the Tory-linked Unionist Party in Northern Ireland, who intends to "take matters into their own hands" the minute their interests are seen as being jeopardized. The cue could come from Lynch's opponents, such as former foreign Minister Garrett Fitzgerald who is backing a confederal solution: a separate administration in the north, with international military backing if necessary to "protect" the rights of the Catholic minority.

* * *

One of the United States' most important black church denominations has officially come on board the fight against illicit drugs. The African Methodist Episcopal Connectional Lay Organization passed a resolution at their Aug. 10 convention in Philadelphia to "organize representatives and members of all sections of our nation to attend and participate in the founding convention of the National Anti-Drug Coalition, to be held in Detroit, Michigan, Sept. 29, 1979."

In Massachusetts, the state Senate has just passed a tough, four-part program of antidrug education in the state schools, after a liberal-dominated Senate committee had voted to kill it. The bill will go to the state House of Representatives when the legislature reconvenes after Labor Day.

JEC's productivity report confirms Riemannian model's warning

The annual report of the Joint Economic Committee of Congress, released Aug. 14, corroborates, however unintentionally, the computer-based economic analysis published over the past several weeks by the *Executive Intelligence Review*. These projections were based on a new econometric model drafted by Lyndon H. LaRouche, Jr., a contributing editor, and constructed by Drs. Uwe Parpart and Steven Bardwell of the Fusion Energy Foundation.

In brief, the JEC report, published under the chairmanship of Sen. Lloyd Bentsen (D-Texas), warns that the present sharp decline in the economy's productivity presages a general decline of American living standards through the 1980s. The report cites the productivity statistics recently released for the first half of 1979, which show a 5.7 percent drop in the output per manhour of the non-agricultural sector of the U.S. economy.

The 5.7 percent overall productivity drop, the worst since the statistics were first collected, is actually an underestimate. Manufacturing productivity in terms of output per manhour rose by an annual rate of 3.3 percent only because industrial layoffs exceeded the decline in second-quarter output, biasing the overall figures upward.

The Joint Economic Committee's report warns that if this collapse represents a basic phase-change in the economy, the U.S. economy will not be able to persist at anything resembling present levels.

Projection and explanation

This set of conditions was forecast by the economics staff of *Executive Intelligence Review* as the basis for computer-based analysis of the oil crisis rigged by the Seven Sisters cartel, and the U.S. government in May and June. According to the forecast, the result of a permanent rise in American energy prices, and the Carter administration's synthetic fuels program, would be a basic drop in productivity in the range of 5 percent. As noted, this has not yet worked itself out into the manufacturing numbers, but all indications are that a similar development will follow in the manufacturing sector through the rest of the year.

The underlying cause of the productivity collapse is the post-1958 diversion of investment away from tangible-goods production into forms of economic overhead, under the general rubric of the "service economy." Past 1966, measured in terms of replacement cost of plant and equipment, net capital investment in American industry has run a deficit of more than $50 bllion per year.

Since the 1974-75 recession, virtually all new investment has been to patch up old equipment rather than construct greenfield plant facilities. The current level of investment represents a minimum below which bottlenecks will proliferate.

Our prediction of a productivity drop followed a straightforward chain of reasoning: an upward break in energy prices will, unless mitigated by other measures (e.g., an aggressive nuclear power program) force a cancellation of investment plans in energy-intensive sectors of industry. Given the borderline condition of American plant and equipment, the manipulated energy crisis will provoke a short-term drop in productivity in the range already registered.

The forecast also premised difficulty in financing the additional energy prices, a circumstance now being imposed by Paul Volcker. The government's decision to let Chrysler twist in the wind for a while has dried up credit availability to the lower-rated tier of American industry, with the short-term result that even essential repairs to plant and equipment will have to be postponed in that section of industry. The Volcker-induced jump in the prime rate this week to 12 percent represents a major aggravation of the shakeout of the credit markets already in process.

Analyzing the preconditions now in place the econometric model forecasts a virtual breakdown of the American economy by 1981. The economy cannot sustain a drop in the already low productivity levels.

It will take a basic change in fiscal policy, actively favoring tangible goods production and directly related services and penalizing wasteful speculation, to return the economy to the right track.

—David Goldman

How Chrysler was driven to the brink—part 2

The first installment of this two-part series, which appeared last week, analyzed how the Chrysler Corporation, founded as an innovative, technology-proud company, was boxed in during the 1950s by General Motors' ability to manipulate its market share and production philosophy. The sabotage against Chrysler was more than a case of unfair competition. It has been run by an alliance between General Motors and banking interests headed by the Morgans and Mellons who are committed to locking U.S.

CORPORATE STRATEGY

industry into a "British System" of technoligical stagnation, environmentalist obstacles, and financial dependence.

Part 2 takes us through the 1960s and the "crisis management," asset-stripping, and related policies that were imposed on Chrysler to the present. The importance of Chrysler's fate is that it is not simply an automaker. Its concentration of productive power and employment make it a major national asset.

Following the late 1950s reorganization at the hands of a GM-oriented "Sloan Management" team, Chrysler was at a turning point. Reorganization had left the company with a sizeable debt and a large deficit in capital spending. The 1957-1958 recession had knocked Chrysler for a loop.

What Chrysler needed in the 1960s was to expand its plant and equipment or else face severe problems as facilities aged, productivity dropped, and its market share retreated further. But this infusion of new capital improvements never materialized in the dimensions required.

Chrysler did build spanking new modern plant and equipment overseas in the 1960s, recognizing that lower lower labor costs combined with tax breaks could propel it into the international market, which experts predicted would become very profitable. But, at the same time, Chrysler failed to expand the number of its domestic automobile assembly plants beyond the eight it already had. Chrysler had intended to build, but never did, a new assembly line inside its New Stanton, Penn. assembly plant. The plant had to be sold in 1975.

Instead, Chrysler was drawn into the heady atmosphere of a domestic market share increase based on the consumer credit bubble—an increased market share provided to Chrysler by GM. The middle 1960s were the gravy years, until reality intervened in 1969-1970 in the form of a sharp recession. GM pulled the plug on Chrysler's market share in the midst of this economic downturn. The last opportunity for building new plant and e

Enter Ralph Nader

In the early 1960s, a CIA Latin American specialist and protégé of Arthur Goldberg and Daniel Patrick Moynihan, was given national prominence by the media. His name was Ralph Nader and he was British Intelligence's case officer for "consumerism and environmentalist" in the United States. Nader made a well publicized attack on the auto industry in the mid-1960s in his book *Unsafe at Any Speed*, which only gained notoriety when certain GM officials tried a heavy-handed and deliberately scandalous attempt to buy Nader off with women.

GM's attitude toward the environmentalists, as noted in part one of this series, was to be continued secret cooperation. GM knew that Nader's proposed restrictions on autos would ruin its competitors while GM would survive.

Nader's work—funded in part by Stuart Mott, heir to the GM fortune—culminated in the environmentalist codes imposed on the auto industry in the Energy Act of 1975. The codes mandated downsizing of cars, fuel emission standards, safety standards, including air bags, and auto industry average miles per gallon of 27.5. This placed incredible expenditures on the auto industry, but expenses which have been unevenly distributed. For example, between 1978 and 1985 Chrysler will spend nearly the amount per car for environmentalist standards of that spent by GM, according to the consulting firm H.C. Wainright. Already Chrysler shells out $620 per car meeting government regulations, compared to $340 per car for GM, deeply eroding Chrysler's profit margin.

By 1974, with the onset of Henry Kissinger's "Oil War," Chrysler began to show the costs of having failed to modernize its plant and equipment and the effects of GM's tightening control. Spiraling oil prices hit the auto industry hard. While GM and Ford's profits fell to 40 percent of 1973 levels, Chrysler actually ran a net loss of $52 milion. In 1975, the worst effects of the oil hoax hit, as large portions of the industrial Midwest closed down and auto layoffs reached 135,000 workers. Yet, by the end of 1975, GM was able to raise its profits 25 percent above 1974 levels, while Chrysler's loss that year ballooned to $260 million.

From this point on, Chrysler's history is essentially

UAW's Fraser defends environmentalism

At a press conference in Chicago on Aug. 9, United Autoworkers President Douglas Fraser defended the UAW leadership's support for environmental restrictions on the auto industry—though the union admits that such restrictions have contributed to the near-collapse of the nation's number three car producer, Chrysler.

Fraser's remarks followed an emergency session of the union's Chrysler bargaining council, called to consider the company's extraordinary request for a two-year freeze on wages and benefits. In a printed statement, Fraser announced the union's rejection of the company's request and reiterated the UAW proposal for the federal government to buy $1 billion worth of equity—a third of Chrysler's total—in the financially troubled corporation. The government would then use these voting rights to place representatives of labor, government, consumer and environmental groups on Chrysler's board of directors.

Fraser's proposal is reminiscent of the tripartite governing bodies set up in Italy by Benito Mussolini in the 1920s. The emphasis, as in the milder U.S. version, the 1932 National Recovery Administration (NRA), is placed on austerity management and labor "sacrifice," as opposed to a technology improvement and investment strategy.

The UAW statement conceded that "socially useful" environmental requirements put Chrysler at a competitive disadvantage. Asked whether the UAW shares the assessment that capital-diverting environmental demands supported by the UAW were a major contributor to Chrysler's current problems, Fraser replied that he "fully agrees with environmentalist restrictions. If people refuse to use catalytic converters, there wouldn't be any air to breathe," he stated. Under "no circumstances" would the UAW support a relaxation of environmental or mileage requirements for Chrysler or any other automaker. Fraser then called for "even greater capital expenditures on environmental matters...."

Fraser also rejected the idea that aid to Chrysler should be part of a high-technology-oriented economic development proogram or that such a program would be necessary to ensure the corporation's, and the auto industry's, full recovery.

The UAW president declined to comment on whether the union might join the campaign launched by the National Anti-Drug Coalition to end the drug problem in U.S. schools, neighborhoods, and factories—notoriously including Chrysler's. Fraser commented that his union is opposed to "illegal drug use," but said that the issue was "not relevant to the matter at hand."

—*M. Moriarty*

that of treading water, waiting for the Naderite hatchet to strike.

In 1976, Chrysler posted a profit of $423 million and a smaller profit in 1977. But in 1978, the roof caved in. Instead of participating in the generally good sales of the year, Chrysler capsized and lost $207 million.

Chrysler's investment bank, First Boston Corporation, began advising it to liquidate its most pofitable overseas operations. This process, called "asset-stripping," has divested Chrysler of the following properties, which were earning Chrysler its sole profits:

- In February 1976, Chrysler sold its Airtemp division to Fedders Corporation.
- In December 1978, Chrysler sold 51 percent of its equity in its Argentina operations to local interests.
- In February 1979 Chrysler sold its plant and other assets in Venezuela plus equity in Chrysler Colmotores (Colombia) to General Motors.
- In August 1978, Chrysler sold Chrysler Europe to PSA Peugeot-Citroen.
- In August 1978, Chrysler sold 60 percent equity in Chrysler Turkey to local interests.
- In May 1979, Chrysler sold one-third equity in Chrysler Australia to Mitsubishi Motors Corporation.

1979: Midyear crisis

Chrysler's finances, while temporarily stabilized by the sale of its foreign assets, did not improve; by mid-1979, in fact, they were rapidly deteriorating. The company's working capital had shrunk from $1.15 billion in 1978 to $800 million early this year, and is shrinking further toward the critical level of $600 million. If Chrysler falls below this level, according to one working agreement with its bankers, all its loans are recallable.

Meanwhile, Chrysler's short-term debt mushroomed this year, as it rapidly entered a cash squeeze. Chrysler Financial Corporation, the financing arm which helps finance Chrysler dealerships as well as consumer purchases of Chrysler cars, was likewise in financial straits with an additional $1.6 billion in short-term debt of its own.

Then came the announcement of Chrysler's huge second-quarter loss of $207 million and its need for accelerated tax credits on Aug. 2, 1979. This move was accompanied by both Moody's and Standard and Poor's rating services' downgrading of Chrysler Financial Corporation's senior commercial paper to the levels of Baa and BB, respectively, which is known on Wall Street as "junk bond quality." This shut Chrysler Financial out of the short-term markets. But Chrysler Financial had the problem of $100 million of senior debt maturing Aug. 15 on top of hundreds of millions of dollars of its short-term 90- to 120-day debt coming due within weeks.

On Aug. 12, Chrysler Financial sold $500 million in accounts receivable (wholesaler credits from Chrysler Financial to Chrysler dealerships) to Household Finance Corporation. HFC will receive whatever interest accrues on the receivables, depriving Chrysler of a profitable source of revenue. Then, on Aug. 14, Chrysler Financial sold off $230 million in accounts receivable (retailer credits to consumer purchasers) to General Motors. This will give Chrysler temporary funds with which to pay off its short-term debt when it comes due, and nothing more. But now Chrysler has placed itself in a position of relying on GM and HFC not only for additional cash, but also to help clear up its poor credit standing.

The dismantling of Chrysler

While Chrysler is being crippled, GM, contrary to the public impression, is not suffering one bit. At $2,445 million, GM's profits for the first half of this year are larger than any GM first half profits in history. Moreover, GM is actually benefiting from the environmentalist laws. According to one authoritative source, GM has accumulated one of the world's largest stockpiles of platinum, which is a key ingredient in the Ralph Nader-required antipollution catalytic converter. Since the 1975 passa
platinum has shot up from $50 to $350 perounce, throwing GM a tidy ripoff profit.

What's ahead for Chrysler, however, is even more asset-stripping and perhaps extinction. This policy was spelled out in the Rothschild-owned London *Economist,* which, in an Aug. 4 article entitled "Chrysler Running Out of Road," writes Chrysler's epitaph. The guillotine is being set up by Treasury Secretary G.W. Miller, who spent his days at Textron Corporation asset-stripping.

On Aug. 8, Miller flatly rejected Chrysler's bid for a plan that would give Chrysler $1 billion over 18 months in badly needed cash in the form of accelerated tax credits. Chrysler also asked for an extension of the compliance date for the environmentalist regulations. Rejecting this bid, Miller recommended that Chrysler seek a $500 million to $750 million federal loan guarantee from Congress.

Presiding over this loan guarantee affair, which will come up on Capitol Hill in September, is Henry Reuss (D-Wisc.), chairman of the House Banking Committee. On New York television Aug. 10, the ultra-liberal Reuss stated that he wanted Chrysler stripped down to a producer of small compact cars, with some mass transit and bus production. Reuss, in short, wants to impose his antigrowth views on Chrysler and wreck it as an auto company.

Joining Reuss in this effort is Senator William Proxmire (D-Wisc.), Reuss's counterpart on the Senate Banking Committee, who used the loan guarantee roulette game on New York City to slash essential services. The entire United Auto Workers-Democratic Party-dominated Michigan congressional delegation is on board with Reuss. The office of Senator Riegel (D-Mich.) indicated on Aug. 15 that Riegel intends to support fully Reuss's decapitation of Chrysler.

The role of the UAW in Chrysler's decline cannot be underestimated. Instead of pressing for modernization or replacement of Chrysler's decrepit inner-city facilities, the union countenanced—if it did not abet—the funneling of worker discontent into proto-terrorist "militant" cells like the Dodge Revolutionary Union Movement (DRUM), an offshoot of the League of Revolutionary Black Workers. The wildcat and other disruptive capabilities of these groupings was significant in the 1960s.

Well known for its role in setting up the Students for a Democratic Society, the UAW has also been one of the most open supporters of Ralph Nader and funders of environmentalism. The UAW energy program, for instance, would eventually shut down the domestic auto industry, its conservation demands are so extreme! The union's specific proposal for Chrysler involves placing consumers and environmentalists on Chrysler's board of directors, and UAW President Doug Fraser has steadfastly refused to support any modifications of the environmental restrictions crippling Chrysler (see box).

And the Republican Party is taking the view that Chrysler should be allowed to collapse, because that's the free enterprise way.

Thus, Chrysler has neither of the two traditional political parties going to bat for it. The United States may soon be given an object lession of how one of the largest industrial firms can be laid low by avowedly pro-British economic warfare deployments. If Chrysler goes, the U.S. economy is next.

—Richard Freeman

Reuben Askew is not 'Mr. Clean'

The Carter administration's appointments this summer in the area of trade underline the fact that the noises the administration continues to make about launching a U.S. export drive are largely PR for the credulous. The three relevant appointments are:

- *the August appointment of former Florida governor Reuben Askew to Robert Strauss's important post of Special Trade Negotiator, a job whose main requirement these days appears to be a propensity to bully America's trading partners;*
- *the June appointment of Luther Hodges, Jr. as Undersecretary of Commerce, the number-two post in that department;*
- *the July appointment of deputy trade negotiator Alonzo McDonald as staff director at the White House.*

Each of these figures may be expected to play a significant and pernicious role in implementing the Council on Foreign Relations' strategy for "controlled disintegration" of the U.S. and world economy by using the United States for trade war directed against those countries—such as France, Germany, Mexico, Japan, and the Soviet Union—favoring dirigist nuclear-power and industrial development policies. We discuss one of the appointees, Reuben Askew, below.

WORLD TRADE

Reuben Askew, to replace Robert Strauss as Special Trade Negotiator, was set up at the beginning of the 1970s as a leading "New South" liberal by the Council on Foreign Relations (CFR) circles who created Jimmy Carter at the time. Indicative of the circumstances is a March 5, 1972 *New York Times Magazine* "rave review" of Askew as an even greater "New South" liberal than Gov. Jimmy Carter of Georgia.

Several years later, just prior to the 1976 nominating conventions, leading CFR personages such as David Rockefeller are known to have debated whether to install Reuben Askew as the Democratic Party's populist-sounding "anti-Eastern establishment" figurehead rather than Carter. As it was, Askew gave the keynote speech at the 1976 party convention, an unprecedented honor for a state governor.

The Florida record

Under Governor Askew, from 1971 on Florida was turned into the major transshipment point for Caribbean and Latin American traffic in cocaine, heroin and marijuana into the United States. This route became particularly crucial to Dope, Inc. networks following the success of anti-narcotics campaigns by the Echeverria and Lopez Portillo governments in Mexico. At the same time, liberal Governor Askew opened up his state to bank and real estate takeovers by Canadian and organized crime-linked elements, whose speculations were principally financed by laundered drug monies. Under Askew's tolerant policies, Miami became the drug capital of the American South while gambling centeredon rigged jai-alai matches became the state's leading sport.

To foster the flow of illegal drugs into Florida, in 1971 Askew rammed through the state legislature a bill reducing first-offense marijuana possession from a felony to a misdemeanor. This was one of the nation's earliest moves toward a policy of narcotics decriminalization.

For these and related efforts Askew quickly won the praise of the U.S. liberal establishment, exemplified by the *New York Times* and columnist Mary McGrory. He was touted as the South's "Mr. Clean"—the poor boy turned lawyer who emerged unsullied from service in a notoriously corrupt state legislature, a man who neither swore nor smoked, a man of principle, a reformer. No mention was made of "Mr. Clean"'s legislative softness on such unclean matters as gambling, real-estate speculation, and narcotics.

Friends and sponsors

Askew became the darling of the Zionist Lobby. A Presbyterian himself—since 1960 he has been an elder of the church—Askew received the John F. Kennedy Profiles in Courage Award from the B'nai B'rith in 1971; the John F. Kennedy Award of the National Council of Jewish Women and the Herbert Lehman Ethics Award, both in 1973; and the Leonard L. Abess Human Relations Award of the Florida Anti-Defamation League/B'nai B'rith in 1974.

Governor Askew also became a darling of the environmentalist movement. In 1972, he decreed the state legislature to be in "environmental session." One of the offshoots of his labors was the creation of a state environmental agency—one of the first in the nation—and the enactment of a $240 million environmental bond issue. In gratitude, that year the Florida Audubon Society gave him its Outstanding Conservationist of the Year Award and he received a similar honor from the National Wildlife Federation. Both organizations are notorious for their Malthusian orientation.

Not unlike his liberal counterpart in California, Jerry Brown, Reuben Askew has a cult orientation. He is a member of the Isis-worshipping Scottish Rite of Freemasonry. For nutrition, he has a penchant for brewer's yeast.

Like the man he replaces as Special Trade Negotiator, Askew is a leading figure in the national Democratic Party. During 1973-74, Askew was vice-chairman of the Southern Governors' Conference and its chairman in 1974-75. In 1976-77 he chaired the National Democratic Governors' Conference, and in 1977 he was chairman of the National Governors' Conference.

Since these connections derive from the period when Robert Strauss himself was running the national Democratic Party, it is probable that Strauss personally handpicked Askew as his successor in the trade post. The choice would have been agreeable to the stagemanagers of the recent Cabinet/White House shakeup, inasmuch as the shakeup was significantly intended to provide a non-"Eastern establishment" cover for the acceleration of CFR policies. Hence most of the recent appointees or re-assignees, including the three in trade and commerce—Askew, Luther Hodges, Jr., and Alonzo McDonald—are all Southern. Far from being genuine pro-growth non-"Eastern establishment" spokesmen, they all derive from traditionally anglophile Southern Confederate networks, as does Strauss himself.

Strauss moves on

Strauss has no reason to be dissatisfied with his scheduled exclusive focus, starting this October, on Mideast affairs. First of all, Strauss has accomplished his chief assignment, railroading through Congress with a minimum of disclosure and discussion the anti-industrial Geneva Multinational Trade Negotiations (MTN), otherwise known as the Tokyo Round.

Equally compelling, Strauss will be able to devote full time to his Mideast task of dissolving the nascent Franco-German-Soviet-Arab entente for energy and industrial development, which is anathema to the London-Washington strategists Strauss serves.

Upcoming columns will discuss the scandal of Luther Hodges, Jr.'s appointment to the number-two Commerce Department post and the significance of Deputy Trade Negotiator Alonzo McDonald's transfer to the White House as its new staff director.

—Richard Schulman

GOLD

What is Janeway worried about?

Are Paris and Bonn vying with London and Washington for South Africa's political allegiance? Although Britain's extensive control of South African mining and finance would appear to place South Africa firmly in the Anglo-American camp, recent statements by New York economist Eliot Janeway to the Johannesburg-based weekly *Financial Mail* indicate that the situation is not quite so clear-cut.

Janeway, a Friedman-style monetarist who consults regularly with Lazard Freres partner Disque Deane, visited South Africa in July to confer with top government and private sector officials. In an interview appearing in the July 27 *Financial Mail*, Janeway went out of his way to emphasize that South Africa must ally itself with the U.S. rather than Western Europe gested that the U.S. government might guarantee South Africa a stable gold price in return for its continued loyalty.

"You don't consider our linkages with Western Europe to be more valuable to us [than linkages with the U.S.—A.R.]?" queried the weekly.

"Western Europe will play you for an affiliate—a sucker—over gold," said Janeway. "Europe wants to own gold—in fact they are gold buyers by preference, but Western Europe is not going to put private money into South Africa over a 10 to 30 year stretch. I have discussed in the past, and will discuss while I am in South Africa, a scheme to provide a filter between the U.S. and South Africa—to give a stabilized gold price."

Janeway's comments raise a number of interesting questions. French President Giscard has proposed a "trialogue," or summit, in which continental European nations, the Arab oil producers, and black African governments would discuss wide-ranging economic collaboration, including, for example, massive deployment of European technology and Arab capital into African development projects. Are the British worried that, despite its current pro-British foreign and domestic policies, South Africa could be lured into joining such a Euro-Arab-African economic cooperation zone? Significantly the West German Bundesbank and other central banks of European Monetary System members have been discreetly adding to their gold reserves in recent months, often employing the Dresdner Bank as their buying agent. Shortly before his assassination by Baader Meinhof terrorists in 1977, former Dresdner Bank Chairman Jürgen Ponto told the South African journal *To the Point International* that a new gold-backed monetary system was on the horizon and South Africa would play a key role in it, not only as a gold supplier, but as the center of an industrialization drive involving the entire African continent.

—Alice Roth

Can London hamstring German Eurolending?

In April, the U.S. Federal Reserve put the finishing touches on its plan to impose mandatory reserve requirements on all international banks' Eurocurrency lending operations—a plan *Executive Intelligence Review* was the first to expose. Now that this draconian approach to shutting down the markets has been derailed by opposition, the Fed and the Bank of England are pressing for finer-tuned curbs on Eurolending.

The question is whether key West German, French, and other European banks will be able to continue their current absorption of international—especially OPEC—

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deposits. They are recycling these deposits in the form of trade and trade-related credits in a quiet first approximation of the European Monetary System's planned control over the bulk of Euroliquidity for global industrial-development financing.

Surveillance and consolidation

The Fed and the Bank of England continue to press for lending cutbacks on the credit extension side; they have won at least nominal agreement by other central banks to prevent banks' "overexposure" in loans outstanding to any one "problematic" borrower. The intent of this surveillance is to give Third World and less-developed OECD economies no recourse but to beg for credit from the International Monetary Fund and the New York and London banks that also insist on IMF "conditionalities."

The Cooke Committee

This month the IMF enforcers have started to openly go after the Europeans' source of funds as well, in a campaign reflected in the London *Economist*, *Financial Times*, and New York *Journal of Commerce*.

The West German Bundesbank, which shares the Anglo-American horror of "overlending, " supported the original Fed reserve-requirement proposal. But the Buba soon backed off in the face of French opposition, plus the German banks' blunt refusal to shut down their Luxembourg Euromarket. (A "Euromarket" is shorthand for any offshore banking center that operates outside national regulations.)

This paved the way for an approach ostensibly more reasonable, spearheaded by the Bank of England: Let us move toward internationally uniform requirements for consolidated balance sheets. This is basically another way of imposing reserve requirements, because a subsidiary's Euroloans would be included in calculating the parent bank's ratio of capital to loans outstanding, as is already the case in the U.S.

This approach is now being revved up by the Cooke Committee of central bankers and bank supervisory authorities from the Group of Ten leading industrial nations. Named after Deputy Bank of England Governor Peter Cooke, the Cooke Committee was established in the wake of the 1974 Herstatt Bank collapse.

Interbank deposits targeted

It was the Cooke Committee that organized the July 5-6 conference of banking supervisors in London, where the U.S. Comptroller of the Currency, John Heimann—a Fed ally from Warburg, Pincus—warned about "interbank lending, which accounts for up to 40 percent of the foreign loans of the U.S. banks."

Heimann exposed the actual reason for his concern: he raised the example of an American bank making an interbank placement with "a quality European bank" "without knowing of that bank's heavy exposure in a place like Iran."

The example is silly on the face of it. What international officer would not about about such things—including Bonn's credit guarantees?

The point is that the consolidated balance sheet/capital ratio approach by itself will not suffice to curb West German lending so long as (a) the banks can beef up their capital as needed and (b) their deposit base continues to grow. The deposit base—heavily reliant on interbank inflows—is consequently under direct fire.

At the same conference Bank of England governor Gordon Richardson cited two further problems: diminishing capital ratios of international banks, and what Richardson described as "skimping" on liquid asset holdings. The Aug. 4 London *Economist* draws out the implications by warning that "International banks have increased their vulnerability by using short-term deposits to make ever-longer-term loans."

This was the warning leveled against French banks in the mid-1970s who lent their petrodollar deposits to cash-strapped Italy, with beneficial results all around. It certainly does not apply to West German banks in 1979: Their capital ratios may be weaker than those in New York, but their key increase in liabilities has been long-term inflows, especially through *Schuldscheine* promissory notes of over four years.

Keep your funds to yourself

Therefore, to increase the pressure, the Fed and Bank of England have targeted the lack of regulation that has permitted the Luxembourg subsidiaries of West German banks to draw in, and lend out, funds beyond the grey reach of the Bundesbank. New York and

London opinion makers are also starting to thump on the alleged political desirability of directing funds into the domestic economy to garner votes for incumbent Chancellor Schmidt in 1980. But it is precisely the West German determination to extend trade credits and thus expand export "demand" based on lending out Luxembourg and other capital inflows that has made the West German economy presently the sturdiest around. "Itis still unclear exactly when the recent OPEC oil price increases will cool the still-vigorous West German economy," complains the Aug. 15 *New York Times.* This export demand is the most reliable vote-getter, as Schmidt, and, grumpily, the Bundesbank, know best.

As for the effort to legislate controls on Luxembourg subsidiaries, it might have no better chance than universal Euro reserve requirements. But the demand is part of a bargaining process involving the proposed divestiture of industrial holdings by the big West German banks, and unless Bonn moves full into Phase II European Monetary Fund implementation, subordinating Luxembourg to a new state-to-state lending offensive, concessions to London on this level cannot be ruled out.

Warnings to France and Italy

Meanwhile pressures are mounting against more vulnerable European Monetary System members, notably France and Italy. The lead *Journal of Commerce* editorial Aug. 14 lauded "the trend toward international regulatory cooperation" as "likely in the long run to have far more significant results than all the wasted effort at controlling the size of the Euromarkets" through reserve requirements. But they complained: "The fact that the three biggest banks in France are owned by the government has limited the enthusiasm of the French regulators for certain international initiatives."

The editorial went on to stress the interbank market, whose "greatest potential abuse," it suggested, "comes from foreign governments pursuing monetary policy that forces their banks into the interbank market for what amounts to balance of payments financing and reserve building." This points to Italy, whose credit ceilings, as the *Financial Times* recently noted, have encouraged banks to borrow internationally. Italian borrowers are welcome in the Euromarkets, given the lira's stability and the 5 percent-plus increase in first-half industrial production from January to June 1978.

If heightened labor unrest is provoked in Italy, or the EMS membership that has clinched the lira's stability is jeopardized by the U.S. State Department's control over its interim governments, both Italy and its creditors could be in trouble, sparking the sort of Euromarket crisis London is threatening as a last resort should its "regulatory" ploys fail.

—*Susan Johnson*

Aground at Lock 26

Those who are concerned about the growth of America's freight transport network should turn serious attention to the Lock 26 Mississippi River project, where an alliance of railroad companies and environmentalists have banded together to stall one of the most vital waterway construction projects in the United States. Although the consequences of the Lock 26 logjam are less farreaching perhaps, than those of trucking deregulation, they are symptomatic of the difficulties encountered these days in getting underway—to say noth-

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ing of completing—major projects whose overall benefits are clear and recognized by everyone.

Lock 26 is the most strategic point in the river transport network on the Mississippi. Located in Alton, Illinois, where barge traffic from both the Mississippi and Illinois Rivers converge, and constructed in 1938, the lock is designed to handle a maximum of 46 million tons of shipping per year—a volume reached in 1970.

Today, it is servicing 56-60 million tons. Grain volume passing through the lock has jumped from 5.3 million tons in 1960 to 28 million tons in 1977. The combination of structural and capacity obsolescence has resulted in increasing breakdowns and accidents. Delays and back-ups now *average* 21 hours, costing millions of dollars in lost time and missed shipping connections, at the expense of farmers, shipping firms, and U.S. exports.

In 1974, the Army Corps of Engineers announced its intention to construct a new Dam and Lock 26 to service a maximum capacity of 148-175 million tons per year—triple the current tonnage and quadruple the present practical capacity. The project is now expected to take 7 to 10 years to complete at a cost of $500 million.

The corps maintained, correctly, that under the Rivers and Harbors Act it had jurisdiction to begin construction and required no further authorization. In August 1974, 21 Western railroads joined the Sierra Club and Izaac Walton League in filing suit in U.S. District Court in Washington, D.C. to stop the project. The suit charged, among other objections, that the project needed specific congressional authorization and that the Corps' environmental impact statement was inadequate. Judge Charles Richey granted an injunction.

The railroads joined forces with the environmentalists, in part, out of narrowly perceived self-interest. Increased volume and efficiency of Mississippi barge traffic would divert significant amounts of freight to generally less costly water transport, thus "robbing" the railroads of revenue. Too many railroads these days—21 have joined in the Lock 26 dispute—are under the domination of Wall Street interest more interested in quick profits than in building a solid industrial enterprise. On the Penn Central paradigm, these interests have turned most of the Eastern railroads and a number of Western lines into little more than real estate, insurance, and financial operations. As in the case of the decaying Illinois Central-Gulf Railway, the main Class I road along the Mississippi whose parent holding company, IC Industries, would like to get out of railroading altogether, they have thrown the high cash flow of the railroads into such speculative ventures, drastically cutting back on maintenance and improvement. Consequently, their stake in regional development of industry and commerce is slight or negative.

The railroads lobbied intensively for Congress to impose an unprecedented "user tax" on the waterway companies, charging that capital improvement of Lock 26 by the Corps constituted unfair treatment of the railroads, which had no similar outside agency to do its capital construction. In 1975 the State of Minnesota also offered its amicus assistance in the suit against the Corps, charging that the new Lock 26 would be the first step in cutting a 12-foot channel, as opposed to the current nine-foot depth. Minnesota feared the "environmental consequences" of such a dredging operation, although no one had ever proposed a 12-foot channel! To quiet the furor, the American Waterways Operators, staunch advocates of Lock 26, even stated its opposition to the 12-foot draft.

Following the death of various congressional authorization bills in 1975-1976—with pro-Lock 26 forces opposing them because of the user tax proviso, and anti-Lock 26 proponents opposing them because of railroad and environmentalist pressure—a compromise was passed last year. It specifically authorized construction of Dam and Lock 26, but imposed a user tax of 4 cents per gallon of fuel consumed, rising later to 12 cents. $20 million was appropriated to begin the first phase of construction.

But one year later, no construction has begun on Lock 26. Although the Corps has submitted supplemental environmental impact statements, the environmentalists are charging that these remain inadequate: they do not take sufficient account of the environmental effects of increased water turbulence or of the aquatic life in the few acres of wetlands that would be disturbed!

Currently, Judge Richey is involved in a major criminal case, and had no time for the Lock 26 matter. In August 1974, Richey had denied the Government's motion for a change of venue—and judges—to St. Louis; since then, he has delayed the proceedings or a variety of grounds. The case is not completely in limbo. Meanwhile, Lock 26 continues to deteriorate. In mid-August a barge sank in the lock, tying up traffic for 36 hours.

Phlegmatic response

So far the Corps of Engineers, much and unjustly maligned these days, has mounted only a phlegmatic effort to unstall the project. While several recent Supreme Court victories by the nuclear industry over environmentalists were due in part because participants in the case based their legal strategy on the U.S. Constitution's fundamental commitment to economic and industrial progress, the Corps of Engineers and the waterway operators have narrowed their strategy to legal technicalities, lobbying, and compromise in an environment rigged against them.

One sticky problem the Corps has yet to confront: its legal counsel is the Pollution Control Section of the Department of Justice, whose lawyers devote most of their time working *with* very environmentalists against whom they are supposedly defending the Corps.

It is ludicrous that the railroads and waterway operators are at loggerheads on the Lock 26 issue. Expanded waterway freight increases the economic development of the nation as a whole, and should lead to even further expansion of output and freight traffic. Until this is recognized and acted on, no one wins but the enemies of progress.

—***Steve Parsons***

Legalized gambling: Dope, Inc's grab

Next month legislation to legalize casino gambling will be debated and voted on in three key northeastern state legislatures: New York, Pennsylvania, and Massachusetts. Two of the three states' governors, Hugh Carey of New York and Richard Thornburgh of Pennsylvania, have given their support to the measures, as has New York City Mayor Edward Koch.

New York State is the flagship of the legalization drive. The owners of the major hotel chains, including the leading Las Vegas and Atlantic City enterprises—in most cases documented to be representatives of Eastern establishment and Zionist lobby financial interests and organized crime—have confirmed that they are ready to "jump in" with 12 to 14 new casino hotels in Manhattan alone.

That legalized gambling is suddenly sprouting up everywhere is no coincidence. As the credentials of its proponents prove, the drive to blanket the Northeast with casinos is central to an attempt by a cabal of London and New York-based real estate speculators and international drug traffickers to consolidate political control over the region.

The goal is the systematic conversion of an already shrinking real production base into a British-style "service economy," a temperate zone Bahamas, where the organized crime operations of the London, Zionist lobby, and Wall Street interests will have free rein. The more advanced Northeast gameplan, if implemented, would—as certain Zionist realtors in the Midwest are already saying—be the green light for other regional gambling legalization schemes, particularly in the Great Lakes area.

While proponents of legal gambling claim that they seek to remove the profits of gambling from the control of organized crime—and to divert them into the coffers of state government where they can be used to aid widows and orphans—this argument is a demonstrable fraud. The head of Governor Carey's Gambling Advisory Panel, Vincent Reede, has gone on record as saying that there will be no investigation of organized crime's tie-ins to the casinos. Rather, he states, investigative efforts will concentrate on busting up what remains of old-line labor and ethnic-based political machines.

In this section

This week's U.S. Report on gambling is divided into three parts: a state-by-state rundown on the major states targeted for passage of legalized gambling measures; a profile of the corporations which operate and fund the casinos; and a look at the real estate interests which are buying up America's cities to turn them into casino playlands.

Our report was prepared by a team of analysts headed by U.S. editor Konstantin George and including Barbara Boyd, Donna Levit, Felice Gelman and Lydia Schulman.

Planned shrinkage

Casino gambling and economic depression are two sides of the same policy, and the political henchmen for British-Zionist financial interests have openly said as much. Immediately after the release of the study by Carey's Advisory Panel recommending the passage of a gambling law, New York City Deputy Mayor Robert F. Wagner, Jr. gave a widely covered radio and television interview stating that (1) New York City's productive base and population will decline substantially under a policy labeled "shrinkage" by Koch and Wagner; (2) such "shrinkage" is, to quote Wagner, "desirable"; (3) to quote Wagner again, "with shrinkage, casino gam-

for the cities

bling and related ventures are needed to provide a large revenue source" to maintain the tax base.

A green light is being extended to organized crime interests to manage the operation, which in New York is projected to generate $3 billion annually in gambling profits, 75 percent doing directly to casino operators. Carey advisor Reede has declared that the New York casinos will be run by such corporations as Resorts International, Caesar's World, and Hilton International.

Resorts, as the book *Dope, Inc.* documents, is run by the Meyer Lansky organized crime family. Financial interests involved with Resorts in its Atlantic City venture include the leading Chicago Zionist family, the Pritzkers (owners of the Hyatt hotel chain), and the Bank of Nova Scotia, the North American and offshore banking department of British intelligence.

Caesar's World, owners of the Las Vegas Caesar's Palace, is on record as being run by what is described as "organized crime." Hilton International, the "respectable" firm in the trio, is the operator of the largest gaming hotel in Las Vegas; but more importantly, as the cirriculum vitae of Baron Hilton demonstrates, the chain is and has been since before World War II an arm of Britain's Special Operations Executive and the "Intrepid" network set up by Sir William Stephenson.

In a recent interview, Reede stated that there would be no investigations of mob links to the casino operators, and he candidly told another caller, "Sure, I know people from the mob; I grew up in mob territory. ... I knew many of them when I was a prosecutor.... I've got connections to the mob."

Instead, Reede indicated, New York's "gambling" investigations will be used as the pretext for a series of watergating probes of local political machines and labor unions under the direction of Manhattan District Attorney Robert Morgenthau.

Morgenthau, a former U.S. attorney, is the son of the former Secretary of the Treasury, Henry Morgenthau, author of the infamous "Morgenthau Plan" for Germany. The Morgenthau Plan was the planned "shrinkage" blueprint of its time: it called for the total elimination of industry in Germany, a remarkable harbinger of the current Koch-Robert Morgenthau planned shrinkage policy for New York City, and, by extension, for the Northeast as a whole.

The financier interests behind Morgenthau and his dirty tricks machine, are discernable from his pedigree. His grandmother was the niece of Zionist financier, Herbert Lehman, of the Lehman Brothers Investment Bank portion of the Zionist "Our Crowd" financiers, including the Warburgs, Rothschilds, Schiffs, et al.

The scope of the Morgenthau machine can be grasped from a thumbnail sketch of Morgenthau's protégés, both from his days as a U.S. attorney and as Manhattan District Attorney. They include Franklin Thomas, successor to former National Security Council director McGeorge Bundy as President of the Ford Foundation, who has had a longtime role in directing union-busting and ghetto counterinsurgency operations; and Paul Curran, the Special Prosecutor appointed to head the ongoing investigation into the Carter family peanut warehouse business, the burgeoning scandal that the CFR may use to bring down lame-duck President Carter in the penultimate phase of launching its Alexander Haig option.

Currently, one of Morgenthau's assistants is none other than young Robert F. Kennedy, Jr., who is being groomed to replicate his father's role in the McCarthy witchhunt and in running the Justice Department for a vendetta against the Teamsters and Building Trades unions as well as against non-British-controlled business enterprises.

The roster of gambling proponents nationally is heavily weighted with similar political specimens. They include:

- Media wunderkind David Garth, who orchestrated the election campaigns of a number of progambling public officials, including New Jersey Governor Brendan Byrne;
- Boston mayoral candidate Joseph Timilty, a Kennedy machine fixture;
- Pennsylvania Governor Richard Thornburgh, who entered politics after a long career at the Justice Department; and
- Thornburgh's one-time boss, former Attorney General Edward Levi, in Illinois.

Through such figures, gambling will be eminently a political weapon on behalf of British interests in the United States: in New Jersey, Resorts International reputedly spent $10 million buying state legislators and other politicians for Bronfman protégé Brendan Byrne. That pattern will be repeated as the gambling mobilization spreads nationally.

—*Konstantin George*

Where gambling is on the agenda

New York: test case for the nation

The New York State Legislature will be convened in special session on Sept. 9 for public hearings and a vote on whether to approve an amendment to the State Constitution that would allow legalized casino gambling in the state. Because an amendment to the Constitution is involved, approval by New York State voter referendum is required, in addition to any approval by the State Legislature. The bill which will be voted on is the product of the findings and recommendations of Governor Carey's Casino Gambling Advisory Panel, whose report was released Aug. 10.

Legalization of gambling has been promoted by New York City Mayor Edward Koch since his election in 1977, and has the support in principle of Governor Hugh Carey, although Carey is reported to have reservations about supporting a referendum this fall. The possible qualification surrounding Carey's immediate decision centers on the "obstacle" of the requirement in New York State for an actual voter referendum to finalize passage—a problem which does not confront gambling-real estate interests in areas such as Pennsylvania and Massachusetts. Despite pollsters' claims that the public "heavily" supports casino gambling, the truth is that even a planned intense public relations blitz may not put gambling across with state voters, and a referendum could even drag Carey's transportation bond issue down to defeat with it.

Nevertheless, passage of a casino gambling law in New York is seen by gambling supporters as key to the spread of gambling across the country.

As outlined by the board, 40 casino gambling palaces would be established in the state as a whole, with 13 of them slated for the West Side of Manhattan, in a "casino strip" along the Hudson River. The remainder would be dispersed in the following areas: the Atlantic Seaboard of New York City at Far Rockaway, and the adjacent decaying resort town of Long Beach in neighboring Nassau County. In both locales, about 25 existing nursing homes, predominantly catering to Jewish clients, would be forcibly removed, to make way for the casinos. The other location within New York City would be Brooklyn's Coney Island beachfront amusement area. Upstate, the two selected locations for casino sites include the Catskill Mountains resort area, and the Buffalo-Niagara Falls region.

The dimensions of the program, as stated by the panel, are: $3 billion in anticipated casino gambling profits annually by 1990, with 75 percent of that mammoth figure going as profit to Resorts International, Caesar's World, Playboy, and the rest of the real estate swindle-organized crime crowd "in on the action." The panel estimates 80,000 jobs would be created as direct employment in the casinos and hotels.

The panel's claims that "this will be different than Vegas or Atlantic City" stand in tatters. As the staffers on the panel frankly admit, at least a dozen major national casino and hotel operators are "ready to jump in" to Manhattan as soon as legalization is achieved. These operators include some of the best-known—and dirtiest—operators in Nevada and Atlantic City. Hotel operators included in this group which already have Manhattan operations are not, contrary to reports circulated by the *New York Times*, at all "upset" over the panel's proposed specification that only new hotels can be licensed for casino gambling. As a staffer on the panel admitted: "All these organizations started with the proposition that they would prefer a casino in Manhattan." This source indicated that major hotel chains would be more than happy to accommodate the "new hotel" clause by building a second hotel—the planned 800-room "addition" to the New York Hilton, for example, could qualify—in anticipation of the Resorts-gambling "boom."

The hotel organizations which plan to move in for casino gambling include Resorts International, Caesar's World, MGM, Playboy, Hilton, Sheraton, Holiday Inns, Ramada Inns, Harrah's, Penthouse, and Bally.

Carey aide: no probe of mob links to casinos

Vincent Reede, on temporary leave from the Economic Development Board of the State of New York to serve as director of research for Governor Hugh Carey's Casino Gambling Study Panel, discussed the rationale for gambling in two recent interviews. Most significantly, he stated that New York would not replicate even New Jersey's half-hearted investigation of organized crime influence at the highest levels of the casino operating companies: New York will probe only low level service companies and others peripheral to the actual casino operations.

On organized crime in gambling

Q: *Why do you think casino gambling will pass the*

legislature in New York State in the fall '79 session?
A: There is no real opposition in either the Assembly or Senate. The main controversy at this time is controlling the influence of organized crime in the casino gambling industry. So in answer to your question, the legislature will pass the bill for privately owned casinos based on the fact that New York is different from Atlantic City and Las Vegas.

Q: *What is the difference between New York State and Las Vegas or Atlantic City in stopping the influence of organized crime?*
A: Stopping organized crime is not a new business for New York State. The city has the reputation of being "crime busters," plus we have the know-how and experience. [We have] respected attorneys such as Robert M. Morgenthau, Manhattan district attorney; Alfred J. Scotti, former chief assistant district attorney in Manhattan; and Michael F. Armstrong, former district attorney for Queens, who have had years of investigation and prosecution inside the mob; and we also have contacts. We will be able to control organized crime activities.

Q: *Don't you think all of this has been said before, and that organized crime still holds the same position after several investigations and indictments, and that this is a never-ending battle?*
A: We are not going to stop organized crime, but we are going to root out the high level operators out of the gambling industry. It is going to get sticky, but not like the investigation done by New Jersey. That investigation was distorted. Through the casino gambling enforcement commission we are only going to investigate the service companies—linen, garbage collection, limousine—and labor unions, they are the biggest threat to the gambling industry. It's a waste of time and taxpayers money to start at the top. Those individuals have passed the test. We have to stop the infiltration of the services into the core of the industry, and, I must reiterate, we have the know-how to bring in respectability.

What kind of casinos for New York State?

Q: *What is Governor Carey's casino gambling panel?*
A: The governor's panel was established in February of this year to examine the benefits of gambling and the factors regarding employment and the advantages it would add to the economy of this state, particularly how it would change depressed areas such as Manhattan, Long Beach, Catskills, Rockaways, Coney Island, and Niagara Falls. The panel, which is separate from the staff, consists of attorneys, businessmen, theater and hotel corporate executives. All are highly qualified for the position and are in full support of legalizing gambling this year. The panel's role is to make all recommendations to the Governor, and it has just recommended that the casinos be privately owned and state monitored. The panel is also responsible for a detailed study on location of sites for the casinos, and all available information on organized crime, past and present.

Q: *If the governor approves private ownership, who in the gambling industry will be involved?*
A: The corporations are Resorts International, Caesar's World, and Hilton Hotels.

Q: *With these corporations involved, will New York City have the same arrangement as Las Vegas, or Atlantic City?*
A: No, in New York State the intentions are to bring in London-style gambling—private houses with limited hours and chips starting at $25. Several of our panel members visited London, and were entertained by Resorts and were so impressed with the style, that they have recommended to the governor, that this is the approach to get the legislature and the voters to buy casino gambling.

Q: *What about organized crime and their involvement in the casino industry?*
A: Well, we are going to control organized crime and bring a new respectability into investment in gambling. If you take out organized crime, money can't be laundered. We are going to bring in the New York banks and investment houses. The big investment houses from Manhattan are now arranging deals with the panel, along with real estate firms.

Q: *What does this mean for the center of banking, New York City?*
A: What it means is offshore banking will become onshore, Bahama Islands-style banking.

Q: *What about the port of New York?*
A: The tourist trade will no longer sail out of New York harbor for a gambling cruise, but instead will take a cruise that will come into the harbor, just to look at what Manhattan has to offer.

New York gambling: the public relations pitch

Public relations for the gambling drive in New York is being handled exclusively by Robert Armao, head of Armao and Company, who also serves as chief of staff to the deposed Shah Mohammmed Rezi Pahlavi of Iran and, until landing the gambling contract, was also Mayor Koch's official New York City greeter. Youthful and well connected, Armao, who has worked in the past for Victor Barella (Governor Nelson Rockefeller's labor advisor and close friend) and Senator Charles Goodell, and served as chief of staff to Secretary of Labor Peter Brennan, was hired by a coalition of big business, tourist, hotel, and labor organizations to sell casino gambling. His brother, Richard Armao, vice president of Armao and Company, talked recently about what is planned.

Q: *What public relations is your firm doing for the casino gambling commission?*
Armao:: Public relations is being done in conjunction with upstate lobbying. We are presently preparing for a mass media blitz with several television and radio spots. We are planning to bring to the Legislature and voters that New York State is sophisticated and that is the type of gambling that will be offered. There will be no main floor casinos—the image of gambling will be changed. There is a fear of organized crime and the Legislature wants to keep the Mafia out to keep them from raping the public. There will be no 42nd Street or Sin City.

Q: *How do you propose to change the image?*
Armao: By establishing London-style gambling in private houses, by setting a new trend—and Manhattan is the best site.

Connecticut: Democrats cash in on gambling

Because of a bribery scandal involving the connection of top officials in the Connecticut Democratic Party—including the late John Bailey, a former Democratic National Chairman—to the legalization of jai-alai in the state, casino gambling is likely to come to Connecticut only after it succeeds in New York State.

But when it does, Connecticut gambling interests are ready to go. Hartford-based Aetna Life, a major financial backer of the Caesar's World casion corporation which has also begun investing in hotel properties of its own, has recently bought two hotels in Hartford—hardly a tourists' paradise—which is assumed to be in anticipation of the eventual arrival of gambling. And Hyman Goldfeld, a member of the Democratic Party's National Finance Committee and the head of Connecticut's Largo Corporation, has joined with the British real estate firm London and Leedes to buy an 80-acre parcel of land near Rye, New York, on which to erect a casino resort; part of the parcel reportedly lies in Connecticut. Goldfeld has long-time reputed ties to organized crime figures, and was heavily involved in an effort to introduce jai-alai in Connecticut—a fact which he denies today. London and Leedes is the owner of Ladbroke, Britain's largest gambling firm, and the deal between Largo and London and Leedes is the first direct involvement of a major British gambling company in the United States.

Goldfeld's reputed organized crime associations reportedly date back to the 1950s, when he lived in Las Vegas and owned a construction business. At that time associates of Goldfeld were accused by the Nevada Gaming Commission of being "bookmakers," and Goldfeld was tied to bookmakers known as the "Lassoff brothers." In 1973, nonetheless, Goldfeld received a casino gambling license in Nevada, to build the Thunderbird Hotel. But reputed financial problems forced Goldfeld to end his involvement in the Nevada project, and in 1975 and 1976, he found himself involved in the sweeping scandal involving the legalization of betting on jai-alai in Connecticut.

Goldfeld at this time was President of the Bridgeport Jai-Alai Fronton, subsidiary of Connecticut Sports Enterprises. David Friend, president of the parent firm, was forced to resign his position after court action proving his connections to organized crime. Among the charges leveled against Friend was that he paid a $100,000 bribe to then Democratic State Chairman Bailey to help win legalization of the sport. Goldfeld also resigned his position in the concern after allegations concerning his involvement in organized crime surfaced. He later tried to purchase the Jai-Alai Fronton with a partner, Robert Zeff. But Goldfeld backed out when a secret report by the Connecticut State Police, stating that Goldfeld was connected to crime figures Carlo Gambino, Raymond Patriarca, and Frank Capri, was leaked to the press. (Another leading Connecticut Democrat with ties to Capri is Irving Ribicoff, brother of Senator Abraham Ribicoff, who is a limited partner with Capri in the ownership of an office complex in Stamford.)

Later that year, Zeff—then 95 percent owner of the Fronton—attempted to sell a 40 percent interest to Goldfeld, but the State Gaming Commission flatly vetoed the deal. Goldfeld sued the commission for a reversal of the deal, but lost. Throughout this period, Goldfeld maintained his seat on the Democratic National Finance Committee.

Most recently Goldfeld purchased a small village near Atlantic City, which could serve as a possible casino site. But Goldfeld is officially telling interviewers these days that "I'm not involved with any gambling projects anywhere."

Massachusetts: rigging the referendum

With the Northeast region tabbed as the bellwether on legalized gambling for the nation, the Massachusetts state legislature last week took steps to facilitate the opening of gambling casinos there.

Under the terms of a bill passed out of the Massachusetts House of Representatives Committee of Government Regulation, any town or city in either the Berkshires or Cape Cod may move to allow casino operations if the town's population approves. The bill is expected to come up for legislative review in the fall. The exclusion of an approval requirement at the county level is revealing. Last year, residents in Berkshire County voted three-to-one against permitting legalized gambling—except for the town of North Adams. North Adams's voters overwhelmingly approved casino gambling. Should the new bill become law, voters there would not be constrained by the opinions of other county residents.

Another indication that legal gambling may soon come to Ted Kennedy's home state may be seen in the campaign of Joseph Timilty for Mayor of Boston. Timilty has just hired media whiz David Garth as his public relations chief. Garth has handled publicity for a long list of advocates of legalized gambling and decriminalization of marijuana. Among them: Governors Brendan Byrne of New Jersey, Hugh Carey of New York, and Ella Grasso of Connecticut, and New York City Mayor Koch. Garth also handled the abortive campaign of outspoken drug and gambling legalization proponent Richard Celeste for Ohio's governorship.

Pennsylvania: legalization behind the public's back

Casino gambling is slated to take the place of the steel industry in Pennslyvania—although few voters are yet aware of the fact. With Governor Richard Thornburgh's endorsement, the Pennsylvania State Legislature is supposed to have put all the enabling legislature and governmental machinery quietly in place for casino gambling by early next year. Pittsburgh, Philadelphia and the Poconos are all under consideration as sites.

State Senator McKinney, with four cosponsors, has introduced Bill No. 318 to legalize casinos—an amendment makes any place with hotel accommodations for 100 people eligible. The bill would also establish a Casino Gambling Control Commission and an Office of Casino Gambling Enforcement within the State Attorney General's office, whose operations will be paid for directly by the private gambling houses—so, "bribes," too, are legalized.

The State Government Committee under McKinney is looking for ways to avert scandal before the public becomes aware that organized crime has been legalized. The committee has contacted the Justice Department for its notorious "reports," which meticulously avoided scratching the surface of the international narcotics traffickers in control of the gambling firms. The State Attorney General's office has been doing its own study of Las Vegas and Atlantic City. The reports are not publicly available.

Senator McKinney plans committee hearings to begin Sept. 17. They will be followed by public hearings. The voters will have no say. If the bill is passed, no constitutional changes are required, the governor's signature will make it law. Compared to New York, the procedure is streamlined. The Thornburgh-McKinney timetable sees passage in early 1980, before the public knows what hit them.

Illinois: the 'urban renewal' angle

Chicago, Ill. has its eye on legalized gambling. On the drawing boards of a billion dollar urban renewal program known as the North Loop Project is a gambling casino. The sponsors and major beneficiaries of legalized gambling are just waiting for the go ahead—the approval of legalized gambling in the Northeast.

The public relations for legalized gambling in Illinois is already rolling. The *Chicago Sun-Times* has decried how much money is being lost to the state from illegal gambling. The business is too big to be stopped, so....

Chicago's newly elected Mayor, coached by the Kennedy maching, has not discounted the profits to be accrued from such a lucrative business. Jane Byrne had originally "questioned" the need for the North Loop Project, but has more recently reconsidered. Her mayoral campaign committee received a $10,500 contribution from the Conrad Hilton Hotel which plans to house the gambling casino in the new Hilton going up as part of the Loop project.

Norval Morris, appointed by Byrne as vice chairman of the Chicago Police Board, has called for the legalization of drugs, prostitution, and gambling in his book, *The Honest Politician's Guide to Crime Control.*

Morris is from the University of Chicago, as is Edward Levi, another advocate of legalized gambling. Levi was also appointed by Byrne to the Police Board—a position he recently declined. It was under Levi as U.S. Attorney General that urban political machines like Mayor Daley's in Chicago, were targeted for dismantling. The so-called Levi guidelines, which limited the intelligence gathering operations of law enforcement agencies, were responsible for tying the hands of local police and for hampering their ability to monitor terrorist organizations, narcotics traffic, and other illegal activity.

Levi's subordinate at the Justice Department, Richard Thornburgh, is now governor of Pennsylvania and has indicated that he would not veto a bill being considered to legalize gambling in that state.

Who would benefit from legalized gambling in Illinois? The major hotel chain for one. As the following interview shows, Chicago Hilton thinks it has the most expertise in the area of casino gambling. But, the Hyatt chain will clearly demand equal access to the market. The chain is owned by one of the richest Zionist families in Chicago, the Pritzkers.

Other beneficiaries include the Zionist Crown family, another of Chicago's rich. Besides their ownership of General Dynamics of Fort Worth Texas, the Crown family owns Material Services Corp., the largest cement contractor in the Chicago area.

Chicago Hilton is committed

The following are excerpts of an interview with a Chicago Hilton representative which was provided to Executive Intelligence Review.

Q: *After the election here of the new mayor, there had been some concern whether it was going to be continued, this North Loop project.*
A: The new mayor has been totally supportive.

Q: *So you didn't run into any snags with the transition, the new administration.*
A: Absolutely none. She's been amazingly able to grasp the whole economic impact that we would bring about. She recognizes that its good for the city of Chicago, it's enormous in its content and she's been extremely perceptive. I couldn't say it in stronger terms.

Q: *The project includes a 2,000-room hotel.*
A: Well, we're stating that it's a minimum of 1,800 rooms. That's been the commitment.

Q: *And then it would also have a convention center?*
A: Well, that would be a part of a major convention hotel. ... I mean there is not a removed convention center. ... it's part of it. And that's the way we design and build hotels.

Q: *How long has this project been on the drawing boards?*
A: Well, the announcement of the initial part of the site was made last August in 1978. And, of course, we have been reviewing it for a good many years. ... We have a major commitment here. ...

Q: *As you probably know, it's on the drawing boards in a number of cities for some form of relaxed gambling rules, or whatever. Do you see anything like that down the road in Chicago?*
A: I don't see it at this time. But, of course, the influence and needs for revenues in different governments bring about different positions. I don't see that right now. But again, when you have gaming develop in Atlantic City, that's what got the attention of New York. Maybe the same thing will happen here. ...

Q: *There is a 10 percent budget cut being proposed and austerity policies. In New York they see the revenues that could be brought in from some form of legalized gambling.*
A: You point out the gaming proposal that they have. It is what we consider Monte Carlo-oriented. In other words, they establish a time frame within which you gamble ... And they limit the kinds of games. The controls are very stringent ... One of the things that would have to be recognized is that my company is probably the most professional in that area. ... we have the largest hotel in Las Vegas. ...

Q: *If Chicago were to go that route ... would it have to go through the state legislature, or. ...*
A: That's what they usually do. And that's what it would be in New York. The legislature proposes it. It goes into an ordinance that would demand a referendum and then the referendum takes it from there and its specifically designated. Manhattan may not be designated. They may go into the outer areas. They may go into the Catskills, into the Niagara Falls area. ...

Q: *I spoke with a Professor Norval Morris, University of Chicago, who was just appointed to the Police Board. ... He's a proponent of certain things like this gambling proposal ... as a step both in the direction of revenues and really bringing back a boom. ... Is there anyone in Illinois who has studied this proposal for a possible gaming situation ...?*
A: Off hand, no. I would go back to the city, if the city has ever taken any position like that, to see if they would entertain it at all. They can go many ways ... depending on the needs of the community and the community reaction to gaming. It does bring about a legitimate approach rather than having gaming in the alleys. ...

Who the casino operators are

The world of casino operators brings together a seemingly unlikely alliance ranging from the wormy underside of corporate America to the haut monde *of the Wall Street investment community. Our profile of some of the chief operators follows.*

Resorts International

Recent efforts to remove Resorts International's casino gambling license in Atlantic City, New Jersey were defeated by pleas from the governor's office that widows and orphans would be the victims if the flow of tax money from Resorts' gaming tables was cut. That notwithstanding, Resorts International is intimately connected with organized crime both in the continental U.S. and the Caribbean, and has gone far already toward corrupting political life in New Jersey.

Resorts got its start in the Bahamas by "exposing" the organized crime ties of all the local competition and then moving in with financing deals from Meyer Lansky and his associates to buy up casino licenses. When in the early 1970s some additional financing was required for its gambling operations, Resorts came within a whisker of taking on the notorious swindler and dope smuggler Robert Vesco as a major partner. Vesco was declared "clean" by Resorts' highly touted security service, International Intelligence, Inc. (Intertel). Then he was indicted in the U.S. and jailed in Switzerland. At that point, the deal fell through. Intertel provided Resorts with similar "clearance" for some of its casino employees in the Bahamas. Its Paradise Island resort employed some of the most notorious heroin smugglers in the Western Hemisphere, members of the Montreal-based Cotroni family.

The record of Resorts in its Atlantic City, New Jersey opration has been no better. Campaign finance reports in the state show Resorts' contributions in the tens of thousands of dollars to numerous town and county political organizations. Many sources claim these amount, in total, to more than a million dollars. However, Resorts, in its filings with the Securities and Exchange Commission, reports for the same years that it made no political contributions. How does Resorts explain the anomaly? These were *lobbying* expenses.

Buying off sections of the New Jersey Democratic and Republican machines was not sufficient to ensure the introduction of gambling in New Jersey. The more recalcitrant local politicos were sent to jail by U.S. Attorneys and federal judges associated with Resorts' almost wholly-owned subsidiary Intertel. A grid of the careers of key Intertel employees and key prosecutors involved in "cleaning up" New Jersey would show that both got their start in the Kennedy Justice Department, particularly in the Organized Crime Strike Forces, and their predecessors.

The influence-peddling and politician-buying aspects of Resorts' operations were so blatant that the New Jersey Division of Gaming Enforcement, last year ostensibly investigating Resorts' fitness to receive a permanent gaming license, had great difficulty retaining any of its investigators—most quit in disgust. Finally, the Division of Gaming Enforcement limited itself *just* to presenting evidence of Resorts' open associations with members of organized crime!

Caesar's World

Even New Jersey's none-too-strict Division of Gaming Enforcement has difficulties with this planned new tenant of New York City. The Division required Clifford S. Pearlman, the chairman of the board of Caesar's World, to take a leave of absence until an investigation into his numerous ties to organized crime could be completed. On this condition alone was Caesar's World granted a temporary license to operate in New Jersey. Nonetheless, the division investigation will likely be a whitewash, as it was in the case of Resorts International: New Jersey Governor Brendon Byrne is apparently so confident of this that he allowed himself to be photographed rollicking with Pearlman, the man his gaming commission has under "strenuous investigation," during a recent boxing match at Caesar's Palace in Las Vegas.

Caesar's Palace, the Las Vegas casino which generated the corporation known as Caesar's World, is otherwise a major component in the Kennedy-Zionist lobby wrecking operation against the Teamsters union. It was Teamster loans (engineered through organized crime figures Morris Shenker and Moe Dalitz, who functioned as controllers for the wrecking operations against the union) which built the original hotel. Exposés of the habitues of Caesar's Palace by the Fund for Investigative Journalism were then used to concoct the story of "Teamster links to organized crime."

Aetna Life Insurance Company has recently taken over financing for Caesar's World, with no shift in the Casino's dirty money operations. Aetna's own pedigree for such operations can be gleaned from the fact that Chicago Zionist doyen Phillip Klutznick's Urban Investment and Development Corp. is a wholly owned subsidiary of Aetna. Klutznick's connection to organized crime and intelligence operations as documented in the book *Dope, Inc.* (New Benjamin Franklin House, New York: 1978).

MGM and Hilton Hotels

MGM and the Hilton chain are the two "newest" gambling interests in Nevada, or so the story goes, with MGM's Grand Hotel and the Hilton making the highest profits in Las Vegas. Both came into town on the coattails of Robert F. Kennedy's reorganization of organized crime in the 1960s, and have extracted their massive profits on the basis of a public relations image as "clean leisure industries." Both are bidding for major shares of the New York gambling market.

A close look at both corporations however indicates that they owe their rise to organized crime's own brutal "labor" policies. Both are represented on their boards by top layers of the Zionist lobby who formerly employed a middle layer of mafiosi to take the heat for them in various "investigations" while gambling gained acceptance with the population. The directors of the corporations have now moved in to reap the profits directly for themselves, while the middlemen are sacrificed as "public" organized crime figures.

Conrad Hilton, the founder of Hilton Hotels, was a full Knight of Malta, the secret British intelligence order which has been involved in vice and drugs since the Middle Ages. Hilton, together with Henry Crown, who also sat on the original Hilton board of directors, and the Lindheimer Family of Chicago, virtually controlled the careers of Al Capone and other Chicago mobsters who set up the key national bookmaking operations in the 1930s. It was the original Chicago group of mafiosi who conceived and designed Las Vegas, after opening it as new territory for their bookmaking operations.

Hilton was heavily subsidized at its inception by money from the early motion picture industry, particularly Paramount pictures with Paramount Vice President Y. Frank Freeman sitting on its board. Hollywood at that time was a famous haven for mob money, and Paramount's participation in Hilton came at the same time as ex-bootlegger Joseph Kennedy was sinking funds into Paramount Pictures. The Lindheimer family of Chicago went on to directly inherit Capone's network of race tracks—the Hiltons have now moved directly into Las Vegas.

Barron Hilton, Conrad Hilton's son and the present heir to the family fortune, sits on the board of MGM—now Hilton's purported rival for the largest share of Nevada gaming receipts. Barron Hilton participated directly during World War II in British Intelligence's Special Operations Executive's operations in the United States. The Hilton and MGM Boards also interlock heavily through joint participation in a company called International Leisure Corp.

MGM now spends most of its time running casinos rather than making motion pictures, following a 1968 reorganization which was spearheaded by a large shareholder, Edgar Bronfman. Bronfman's relations to organized crime are also documented in the book *Dope, Inc.* The architect of its present operations is Kirk Kerkorian who is described by knowledgeable figures as a "creation" of Los Angeles lawyer Sidney Korshak. Coming full circle: Korshak began his notorious career as the chief defense attorney for the Al Capone mob in Chicago, and also served as legal counsel for Marjorie Lindheimer Everett and her Lindheimer-inherited racetracks in Chicago. Korshak has been and is currently under investigation by a number of federal agencies for his organized crime ties and his Las Vegas activities. Among other activities precipitated by Korshak to give organized crime a "clean" image was the use of monies by the Parvin-Dohrman Corporation and Foundation, which at one time owned two Las Vegas casinos, to fund Robert Hutchins's radical-liberal Center for the Study of Democratic Institutions in Santa Barbara, California.

Morgan Guaranty Trust Company

Prestigious Morgan Guaranty Trust Company, a proud institution that likes to keep so far from public view that it refuses to accept consumer accounts, has followed the lure of gambling profits to draw it a little more into the limelight than usual. After an indignant Aetna Life Insurance (the current bankroller of Caesar's World) denied recently that it was funding the Del Webb Construction Company—Nevada's largest builder of casinos—and pointed the finger at Morgan, the giant bank's public relations director, Jack Morris, allowed recently that, yes, "hundreds of millions" of Morgan dollars had been made available to the Las Vegas-based firm. And, he conceded, Morgan is standing by with ready cash for construction firms once casino gambling becomes a reality in New York State.

For over a century, it happens, Morgan Guaranty has been the leading conduit of British policy and funds into the U.S. As the banker for U.S. Steel corporation Morgan was influential in helping to develop the company's "profits not steel" production emphasis.

Fittingly, its current Board Chairman Walter Hines Page III is the grandson of the ambassador to the Court of St. James during the administrations of Woodrow Wilson. Page was openly labeled a British agent in the U.S. press at the time.

Morgan Guaranty is also interlocked with the notorious narcotics-financing Hongkong and Shanghai Banking Corporation through Lord Catto. Lord Catto, of Cairn and Catto—also a narcotics linked firm—serves as an officer for Morgan Grenfell, the banking house's London affiliate. Catto is also a member of the International Advisory Board to Morgan's directors.

ITT-Sheraton

With gambling expertise garnered from its hotel casinos in San Juan and Aruba, Dutch West Indies, the 400-hotel Sheraton chain is another poised to jump, according to Governor Carey's Casino Advisory Board, into the New York gambling market. The chain recently purchased New York City's giant Americana Hotel, substantially expanding its already substantial New York operations.

Sheraton was taken over 10 years ago by the International Telephone and Telegraph company, a branch of the British Admiralty-Special Operations Group controlled international communications network. The Sheraton-ITT marriage was conducted by Felix Rohatyn of the Lazard Freres investment bank. As the architect of the New York City Municipal Assistance Corporation and the proposed Energy Corporation of the Northeast, Rohatyn is one of the leading proponents of the policy of urban "shrinkage" on which casino gambling is designed to capitalize.

Real estate: buying up the cities

Cashing in on the planned transformation of U.S. cities from industrial centers to playgrounds for gamblers and rich homosexuals, British-Canadian and European nobility-related banks and financial interests and allied U.S. speculators are now buying up huge chunks of real estate in major American cities that are the proposed sites for legalized gambling and other degenerate "entertainment" enterprises. U.S. industry—from New York's garment center to Chrysler's Detroit auto plants—gets canned in the process to make way for the casinos, flashy hotels, and cocaine-infested roller skate discos. The insider real estate operators, linked to the casino operators, make a killing off the speculative boom in real estate values, which represent funds that can be redeployed into corporate takeovers, dirty operations, and bribes to buy off local political machines.

Who are the intruders?

Olympia and York is Canada's largest publicly owned real estate investment company. Its most recent acquisition in New York City is the huge office building at 466 Lexington Avenue, the former home of Penn Central. Taking advantage of the city's generous tax abatement program for building "renovation," Olympia and York has plans to pour $127 million in overhauling the aging office building and preparing it for its new prospective tenant, J. Walter Thompson and Co, the advertising giant.

Olympia and York now owns 10 million square feet of choice New York City commercial real estate. The Toronto-based company became one of New York City's largest landlords virtually overnight when on Sept. 30, 1977 it acquired eight of the former Uris Buildings Corp. office buildings from National Kinney Corp. The properties house R.C.A., American Brands, Harper and Row, and various other corporate interests. The company is held principally by Albert and Paul Reichmann, orthodox Jews who came from Austria to Toronto after World War II.

Trizec, said to be Olympia and York's major rival, is the second largest publicly held real estate company in Canada. It is controlled by the Canadian branch of the Zionist organized, crime-linked Bronfman family, who made it possible for Hugh Carey and Ella Grasso to get the cash support needed to secure reelection.

"Rivals," however, is a questionable characterization of the relationship between Trizec and Olympia and York. Mr. William Hay, the New York representative of Olympia and York, was president and chief executive officer of Trizec. This past spring, Olympia and York acquired English Properties, *a British real estate company, which held a 50 percent share of Trizec.* The Reichmann Brothers thus became the largest shareholders in Trizec in one stroke, though voting control still resides with the Bronfmans. According to a member of Trizec's Atlanta office, no one is sure what happens next; but no conflict between the Reichmanns and Bronfmans has erupted.

The two companies observe a certain division of labor in their real estate investments. While Olympia and York has concentrated on choice commercial real estate in New York and is now branching into Boston, Trizec specializes in shopping malls and office building complexes in urban and suburban areas everywhere but in the Northeast—in Florida, Atlanta, Kansas City, Denver, Los Angeles, and Detroit.

Also, Trizec has a very different corporate profile from the highly respectable Olympia and York. In Detroit, Trizec has worked with Zionist bigwig Max Fisher's "Purple Gang" interests. Trizec has large holdings in the Detroit "Renaissance Center," a Fisher-financed and inspried project, and in the mid-1960s bought up the Fisher Building in the General Motors center of Detroit.

Reviving the REITs

Apparently the horrendous collapse suffered by the REITs—real estate investment trusts—during the 1973-75 recession is all but forgotten. The REITs, through which an investor can take a stake in an assortment of U.S. properties, are now a main attraction for foreign investors, according to sources in the market.

One REIT which has been funneling foreign investments into U.S. real estate nonstop since its 1972 inception is the privately held Corporate Property Trust, whose chairman is Disque Dean. Dean, a partner of Lazard Freres and an Anglican of centuries' pedigree, is one of the real estate operators with the "acumen" to predict market trends and select lucrative investments. Among the attractions of REIT and U.S. real estate investments generally is the fact that the U.S. real estate market is more highly leveraged than the European market. In Europe it takes much longer to arrange financing and the cash payments runs at least 50 percent of the price.

There are other attractions for the prospective foreign investor. New York City has been offering foreign and other real estate investors a generous abatement on city taxes if they will buy up and "develop" commercial real estate either through new construction or through the renovation of old buildings. This is the program which Olympia and York has made use of, along with the Hyatt Hotels Corp., Massachusetts Mutual Life, and various other organizations involved in the renovation of major office buildings and hotels. This program allows investors a tax exemption on 95 percent of the difference between the original value and new assessed value of a property upon completion of renovation. The tax exemption period is for 19 years, decreasing by 5 percent a year.

According to Dr. Roman Ferber, the executive director of the city's Industrial and Commercial Incentive Board which administers the tax program, some $1.67 billion in real estate investments have been generated by the tax abatement program to date.

Of the total of 235 projects which have been started, a predominance of them have been reconstruction of old buildings. Dr. Ferber attributes much of the success of the program to the work of Deputy Mayor for Economic Policy and Development, Peter J. Solomon, a former Lehman Brothers partner.

—Lydia Schulman

The Nonaligned meet in Havana

The challenge of guaranteeing Third World development

The Sixth Conference of Heads of State of the Nonaligned Countries will be held in Havana, Cuba during the first week of September 1979. Already it promises to be one of the most dramatic and polemical of Nonaligned Summits—the strategically significant gatherings of nonaligned leaders that occur once every three years. This is the first summit to be held in a socialist nation; the first in Latin America; and the first since the critical 1976 summit which adopted the famous Colombo Resolutions.

At Colombo, Sri Lanka, the Nonaligned movement called for a global debt moratorium, the replacement of the International Monetary Fund with a new world credit institution, and for the transfer of advanced technology for the rapid industrialization of the Third World.

But in the intervening three years, the Colombo Resolutions have lain dormant, as the IMF and such enforcers as Henry Kissinger have delivered a series of major defeats to those Third World nations behind the New World Economic Order. What facilitated this was, on the one hand, Third World blindness to the need to intervene in advanced sector politics in favor of those factions which support Third World development and, on the other hand, reluctance of those same prodevelopment factions to stick their necks out and take on the IMF frontally.

Only now, in the course of 1979, has the Third World movement begun to recuperate from its setbacks, and regain some of the anti-IMF momentum generated during the mid-1970s. The overthrow of IMF regimes and their regressive "Dark Ages" economic policies in Nicaragua and Kampuchea has been particularly important in remoralizing developing sector nations. The creation of the European Monetary System has provided them with crucial political leverage. And the emergence of the powerful, third party presidential campaign of Lyndon LaRouche in the United States—whose central policy proposal is the replacement of the IMF with a new International Development Bank—is beginning to give the Nonaligned a new handle on advanced sector politics.

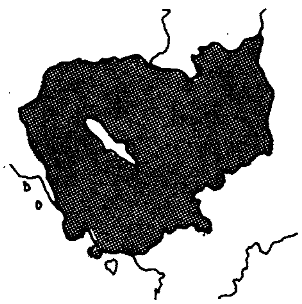
This is the context in which the Nonaligned movement convenes its Havana Summit—a point not lost on Kissinger and his City of London backers.

Virtually from the moment that Havana was announced as the conference site three years ago, England and the United States have led a massive campaign to split the Nonaligned movement, by trying to make Cuba and "Soviet expansionism" central factional issues. Especially around the June 1978 preparatory meeting of Nonaligned Foreign Ministers in Belgrade, Yugoslavia, the United States went out of its way to talk to 15 separate delegations, in an attempt to win them over to a policy of a "change of venue"—i.e., switching the site from Havana—on the grounds that Cuba "is not really a Nonaligned nation." Kissinger and company managed to line up a number of Nonaligned countries behind this approach on the basis of pure anti-Sovietism, with Yugoslavia playing a particularly reprehensible role in organizing attacks on Cuba within the Nonaligned. Egypt has also joined in, as has China, Somalia, and others.

In the final analysis, Kissinger's divisive ploy failed, as the majority of the Nonaligned nations recognized that censuring Cuba or a change in venue would have created an unacceptable precedent of ideological "alignment." The Anglo-American strategists, however, have not abandoned their attempt to turn the Nonaligned into a battleground between East and West. Reliable reports reaching this magazine indicate that Washington is putting out the line that Cuba, as the host country, will excessively influence the conference's conclusions, and that the entire summit should be subtly undermined by downgrading the level of delegations, from head of state to Foreign Minister.

Although there are a number of specific issues of great political importance that will be debated at the Havana summit, some of which we review below, the success or failure of that conference will be defined by whether or not the Nonaligned movement gets back on the track of Colombo, relaunching its programmatic campaign to replace the IMF with a more equitable New World Economic Order.

Kampuchea



The first, and possibly the most bitterly debated, issue that will confront the Havana summit will be a credentials fight over who represents Kampuchea (Cambodia). Although the bloody, Dark Ages regime of Pol Pot was overthrown and replaced by the People's Republic of Kampuchea in January of this year, almost no country outside of the socialist bloc has so far recognized the new government. At issue is the role of the Vietnamese army in aiding Kampuchea in freeing itself from the China-backed Pol Pot genocidal nightmare (under which one-third to one-half of the entire population was liquidated). The Chinese Maoists have led a campaign to deny Nonaligned recognition to the new government, and have so far managed to tie the matter up in a legalistic "compromise" through which Pol Pot's representatives are officially seated as the Kampuchean delegates at Nonaligned functions, but are denied both speaking and voting rights.

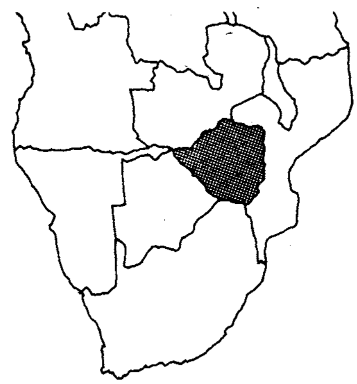
It is expected that a sizeable number of representations, led by those of the socialist bloc, will demand the ouster of the Pol Pot delegation, on the dual grounds that it does not represent the Kampuchean people, and that it has engated in crimes irreconcilable with the principles of nonalignment. The position adopted by the vacillating Indian government on this sensitive point may well determine the direction in which the majority moves.

Nicaragua vs. Iran

Nicaragua and Iran, nations which have recently undergone revolutionary changes of government, will both be applying for membership to the Nonaligned at Havana. Although all indications are that their applications—and those of the other new applicants (Pakistan, Surinam, Zimbabwe (Patriotic Front-Rhodesia), Grenada, and Bolivia)—will all be approved with no overt favoritism shown, the fact of the matter is that an underlying question of the conference will be: Which is the best "model" for Third World revolution, Iran or Nicaragua?

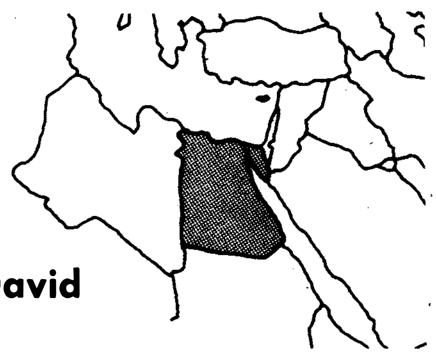
The British and Zionist intelligence controllers of Ayatollah Khomeini and his antidevelopment policies, have gotten a tremendous amount of political mileage in the developing sector by presenting the Pol Pot-modeled ruralization policies being carried out by Khomeini's Jacobin hordes as *the* model to be followed in the overthrow of dictators. Nicaragua, however, has demonstrated to the world that a Mexican-style prodevelopment revolution can in fact be carried out, and Anglo-American forces can be expected to do everything in their power to curtail Nicaragua's influence while building up the Iranian image.

Southern Africa



The Havana Summit will certainly reiterate its condemnation of apartheid and Zionism as forms of racism, but it is still an open question just what stance will be taken on the Zimbabwe-Rhodesia issue. Strenuous Patriotic Front and other African oppostion recently forced Great Britain to abandon its policy of attempting to forcibly impose the puppet Smith-Muzorewa regime in Rhodesia, and the British have now invited the Patriotic Front and the Smith-Muzorewa government to an all-party conference in London in mid-September. Britain will concede to certain cosmetic changes in the Smith-Muzorewa regime at that meeting, in an attempt to undercut the Patriotic Front's supporters.

It is likely that on this issue the Nonaligned summit will follow the lead of the Commonwealth Nations and of the front-line African states in particular, who have yet to issue a full political response. Diplomats expect the Commonwealth participants to report to the Havana summit, after which a decision will be taken on the matter.



Egypt and Camp David

Virtually the entire Nonaligned movement is known to be virulently opposed to the Camp David pact among Egypt, Israel, and the United States. A group of radical Arab states will probably present a resolution to the conference calling for the suspension of Egypt—on the grounds that they have violated the nonaligned principle of non-participation in military blocs by signing the Camp David accords. Although a bitter political battle is expected over this issue, most observers agree that Nonaligned founding member Egypt will *not* be formally suspended from the movement, but that a sharp condemnation of Camp David will be forthcoming.

The Palestine Liberation Organization (PLO), which is a full-fledged member of the Nonaligned, will be an important factor in this debate.

The LaRouche candidacy

Despite the blackout of his presidential campaign in the major American press, the U.S. Labor Party's Lyndon LaRouche is well-known in the Third World as an outstanding economist whose International development Bank proposal was instrumental in shaping the Colombo Resolutions, as well as the related European Monetary System. The emergence over the last few months of the LaRouche campaign as a major contending political force in the United States is being closely monitored by savvy leaders of the developing sector. Although cynicism combined with fear still dominates the Third World's perception of the United States, the LaRouche campaign is sparking growing numbers of Third World diplomats to weigh the positive impact of a LaRouche White House on the question of Third World development.

Although you won't read it in the *New York Times*, insiders admit that LaRouche will be an important topic of discussion in the corridors and backrooms of the Havana summit.

Lopez Portillo's energy proposal

One of the effects of Kissinger's 1976-78 offensive against the Third World is that, since the Colombo Action Program, there have been virtually *no* concrete proposals on how to establish a New World Economic Order. In fact, the only proposal of such global scope that will be on the table at Havana is Mexican President Jose Lopez Portillo's call to make "energy the common responsibility of humanity."

Lopez Portillo has specified that this means drastically curtailing the powers of the speculation-addicted oil majors, and developing instead new energy sources and technologies, including nuclear, that must be fully transferred to the Third World. The Mexican proposal goes on to specify that to guarantee such a transfer of advanced technology, adequate funding and credit must be made available to the developing sector—a concept which Lopez Portillo has called "the content of the New World Economic Order."

In this way, the Lopez Portillo energy proposal addresses the central, related issues of the energy crisis, the IMF and escessive indebtedness, and the creation of new credit facilities to guarantee development.

Mexico is an observer—not a member—of the Nonaligned, but this will not be an obstacle to the presentation of the energy proposal. Cuban President Fidel Castro recently told Lopez Portillo that he fully endorsed the proposal, and that he thought it should be taken up at the Havana Summit of the Nonaligned.

—*Dennis Small*

Highlights of Nonaligned history

The "nonaligned movement" was once labeled "immoral" by U.S. Secretary of State John Foster Dulles. At the height of the Cold War it was looked on with suspicion by the Soviet Union. Great Britain, the former master of many of the newly independent nations, eyed it for possible manipulation. In the 1960s the movement was paralyzed by Maoist China's effort to use it as a vehicle to secure a solid condemnation of the Soviet Union by the Third World.

All these efforts to "align" the movement are better remembered today than its founding principles. Ir began and it remains a basic effort to secure a coherent, nation-building mandate for the developing nations in the context of a post-World War II world. Its efforts have faltered at various times in the postwar years, but the movement has expanded dramatically to include close to 100 nations today, either as full-fledged members or observers. It is the core negotiating body for the developing nations at all world forums. Its activity or its inaction are decisive for the future of a major part of mankind.

The first idea of creating an organized nonaligned movement came at the end of 1954 at the initiative of five nations meeting in Kandy, Colombo. They were two of Asia's pivotal nations, India led by Jawaharlal Nehru and Indonesia led by President Sukarno, along with Burma, Sri Lanka (then Ceylon) and Pakistan, all three newly independent of British rule. A heads-of-state conference was held to "consider problems of special interest to the peoples of Asia and Africa," particularly those problems "affecting national sovereignty and the vestiges of colonialism."

This was the first summit convened in Bandung, Indonesia on April 10-24, 1955. In retrospect it is viewed as the founding of the nonaligned movement, although it was convened as the first Afro-Asian Conference. The heads of state of twenty-four newly independent countries, the bulk of them former states of the British Empire, gathered to frame the principles around which they would develop, support, oppose and negotiate in the postwar order. Through the efforts of Nehru, Communist China was also represented by Chou-en Lai.

The Bandung Principles were highlighted by the following points:

- Economic development as the prerequisite for safeguarding the newly free nations;
- Emphasis on the "development of nuclear energy for peaceful purposes," with the recommendation that international facilities be used for training skilled manpower in the developing nations;
- Condemnation of violations of human rights carried out consistently in Africa;
- Particular attention to find a solution to the bloodshed in Indochina, the Middle East, and support for the liberation of African states from direct and indirect British rule.

Who's in the Nonaligned movement

Africa

Algeria
Angola
Benin
Botswana
Burundi
Cameroon
Cape Verde
Central African Empire (Fr. Equatorial Africa)
Chad
Congo
Comoro Islands
Djibouti
Equatorial Guinea
Ethiopia
Gabon
Gambia
Ghana
Guinea
Guinea-Bissau
Ivory Coast
Kenya
Lesotho
Liberia
Libya
Malagassy Republic (Madagascar)
Malawi
Mali
Mauritania
Mauritius
Morocco
Mozambique
Niger
Nigeria
Rwanda
São Tomé and Príncipe
Senegal
Sierra Léone
Seychelles
Somalia
Southwest African Peoples Organization (SWAPO)
Sudan
Swaziland
Tanzania
Togo
Tunisia
Uganda
Upper Volta
Zaire
Zambia

Asia

Afghanistan
Bangladesh
Bhutan

Summing up their worldview, the Afro-Asian Conference attendees stated:

> The problem of peace is correlative with the problems of international security. In this connection, all states should cooperate, especially through the United Nations in bringing about the reduction of armaments and the elimination of nuclear weapons under effective international control. In this way, international peace can be promoted and nuclear energy used exclusively for peaceful purposes. This would help answer the needs, particularly of Africa and Asia, for what they urgently require are social progress and better standards of life in larger freedom.

War or Peace

Yugoslavia's Marshal Josip Broz Tito sponsored the unscheduled 1961 conference, redefining the movement away from its Afro-Asian focus into the realm of "international nonalignment." Growing troubles between India and China had made Nehru oppose the convening of a Second Afro-Asian Conference, but Tito along with Egyptian President Gamal Abdel Nasser made possible the Belgrade Conference for "the purpose of consolidating world peace" because of the "unfavorable development in international relations."

Belgrade, Sept. 1, 1961 was the midpoint in a period of very aggravated U.S.-U.S.S.R. relations, as exemplified by the 1960 U-2 incident and the 1962 Cuban Missile Crisis and Sino-Indian War. Twenty-five nations attended the summit, and notably one of the founding members of the Nonaligned was Cuba. The main declaration to emerge out of Belgrade was titled "Statement on Danger of War and Appeal for Peace" which in part read: "War has never threatened mankind with graver consequences than today. On theother hand, never before has mankind had at its disposal stronger forces for eliminating war as an instrument of policy in international relations." The heads of state noted that "Acute emergencies threatening world peace now exist in a period of conflict in Asia, Africa, Europe and Latin America, and big power rivalry likely to result in world conflagration cannot be excluded; that to eradicate basically the source of conflict is to eradicate colonialism and all its manifestations and to accept a policy of peaceful coexistence in the world. ... "

At Belgrade, a call for development of nuclear energy for peaceful purposes was again made and the use of the United Nations as a main forum for negotiations was reasserted. Most emphasized was the group's policy of excluding nations participating in military blocs. Such original Afro-Asian participants as Pakistan and the Philippines were left out under this stipulation.

After the Belgrade Summit, a deep polarization developed within the movement as a direct result of the Sino-Indian War. India, one of the major promoters of China's entry into the movement at the beginning, suffered a major military confrontation with that nation and many countries in the movement were faced with taking sides. The Sino-Soviet split resulted in a major organizing drive by the Chinese to get an outright condemnation of the Soviet Union by the nonaligned. Technically, China was in favor of reconvening the Afro-Asian format, following its partially successful wooing of some African nations through aid policies endorsed by the British.

Egypt's Nasser deftly changed this focus to the economic concerns of the nonaligned as a whole, and with joint sponsorship of Tito, the Second Conference was held in Cairo, Oct. 5-10, 1964. At the time, China

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Burma
India
Indonesia
Kampuchea
Korea, Dem. Peoples Rep. of
Laos
Malaysia
Maldives
Nepal
Singapore
Sri Lanka
Vietnam

Europe
Cyprus
Malta
Yugoslavia

Latin America
Argentina
Cuba
Guyana
Jamaica
Panama
Peru
Trinidad and Tobago

Middle East
Bahrain
Egypt
Iraq
Jordan
Kuwait
Lebanon
Oman
Palestine Liberation Organization (PLO)
Qatar
Saudi Arabia
Syria
United Arab Emirates
Yemen Arab Republic
Yemen, Peoples Dem. Rep. of

Applicants for membership
Bolivia (Latin America)
Granada (Latin America)
Iran (Middle East)
Nicaragua (Latin America)
Pakistan (Asia)
Surinam (Latin America)
Zimbabwe Patriotic Front (Africa)

Observers (all from Latin America)
Barbados
Bolivia
Brazil
Colombia
Ecuador
El Salvador
Granada
Mexico
Uruguay
Venezuela

did not attend the Cairo meeting, as Tito was not overtly sympathetic to Peking.

Forty-nine nations attended this meeting, and 10 others went as observers. All Bandung's major points were reiterated but a major effort was made to keep the China controversy at a low key. Mainly, the Cairo summit chose to reiterate the principle of national sovereignty of member states and "economic emancipation as an essential element in the struggle against political domination." This was extremely significant given that, starting in 1960, major nonaligned nations such as India and Egypt began to be seriously pressured by the World Bank to surrender national sovereignty in exchange for financial aid.

The 1964 Cairo Conference and the 1970 Lusaka Conference kept the movement alive but without the spark of earlier periods. With the exception of Marshal Tito and the emergence of Algeria's Houari Boumedienne in this period, the movement found itself without the leaders of the past. Its direction from a strident anticolonial thrust to a frontal campaign on economic issues of the day had not yet been defined.

It was at Algiers, in 1973, that the new core of leadership began to assert itself, putting the China problem in the background and making the necessity of a New World Economic Order the movement's key plank. In 1973, Fidel Castro, Indira Gandhi of India, and Houari Boumedienne of Algeria played key roles in giving new life to the movement, learning much from the World Bank/Chinese/British combined operations in the overthrow of Sukarno in 1965 in Indonesia and Nkrumah in 1966 in Ghana.

At Algiers, Boumedienne asserted the necessity for a New World Economic Order and converted the Arab oil wealth into a negotiating weapon for technology transfer to the developing nations. The Special Session of the United Nations in 1975 and 1976 were part of this effort that was to culminated at the Fifth Summit of the Non-Aligned Nations in Colombo, Sri Lanka, in August 1976.

The upcoming Havana Summit will be the sixth summit, with over 89 heads of state or government present, making this group the largest ever assembled to deliberate the strategic politics and economic problems of the world today. The nonaligned has now become an organization that represents a very large portion of the world population, and its decisions will be crucial. Its current format includes meetings at the United Nations prior to each UN General Assembly. Its coordinating bureau of 24 geograpnically elected members meets every year and its foreign ministers meet every second year. It is an established decision of the movement to hold heads-of-state summits every three years. Cuba will be the host and organizer of the movement's activities for the next three years, including convening of emergency meetings when deemed necessary.

The Nonaligned and the

Since the Algiers summit in 1973 the issues of the New World Economic Order (NWEO) and the task of economic development of the Third World developing nations has been the most prominent issue for the movement. In the period in between the Algiers summit and the following Colombo heads-of-state summit in 1976, the NWEO became the greatest global issue—known commonly as the "North-South problem." The history of this period provides the insight needed to understand the tasks before the Havana summit.

From Algiers to Colombo

When the Algiers summit took place in 1973, the Nonaligned nations faced an increasingly dangerous international situation, dangerous to hopes for economic progress and for peace. In August 1971, the Bretton Woods system of the International Monetary Fund (IMF) and its sister World Bank had dramatically collapsed. Massive international monetary instability, global inflation, a collapse of world trade and an overall depressed world economy put the developing sector under great pressures. Tensions in the Middle East brought war shortly after the summit.

All of this brought forward the call for a New World Economic Order, one which would end the dominance of the IMF system in preventing industrialization and technological development. Out of Algiers the direct result was the convening of two successive "Special Sessions of the United Nations on Development" in 1974 and 1975, which formalized the call for a new order in U.N. declarations on economic rights and development goals. The emergence of OPEC, which begins before Algiers, but flexes its muslces in the 1973-74 period, was depicted as the signal of new militance among developing nations in pursuit of their aim to increase the flow of technology, and reverse the unequal terms of trade and credit which had persisted from the colonial period.

The vital issue at the core of this battle was the fate of the IMF itself and the necessity to bury this institution in favor of creation of a new international monetary system whose premise would be the availability of cheap credit for financing of real, productive development projects in the Third World. This issue however has been subjected to numerous efforts at obfuscation and resistance from those financial centers—of London, New York and their allies—whose global power fundamentally rests on the maintenance of the IMF and the enormous pyramid of nonproductive debt upon which it rests.

The Oil Crisis of 1973-74 brought this issue to the forefront. An enormous pyramiding of developing sector debt resulted from the oil-price crisis. Developing sector debt, both from multinational institutions like the World Bank and from private banks, rose from around $100 billion in 1972 to over $200 billion by 1975-76, and now is at approximatley $300 billion. The speculative bubble known as the Eurodollar market, run out of London, was the main source for this expansion while the IMF played the role of "enforcer" for the banks, going into developing sector nations as the institution which both demanded "accountability" and established the criteria for "credit-worthiness" for the banks.

The IMF policy has been unchanging—at every point of crisis it demanded increasing levels of austerity, cutbacks in industrial investment, increases in raw materials exports and agricultural exports, all to ensure that the debt would be repaid no matter what the cost to the nation itself. In fact, IMF and New York-London bankers ensured that the debt crises would only worsen by destroying any attempt to expand the productive base of the developing sector that would have permitted them eventually to repay their loan obligations.

It was in this context that the debt issue and the existence of the IMF itself became the key issues around which the North-South confrontaiton would take place. Developing sector natins like Zaire, Peru, Jamaica and others were forced to choose between defaulting on their debt or agreeing to sucn onerous conditions for the rollover of that debt that the survival of their governments was totally undermined.

What shook the halls of London, New York and IMF headquarters in Washington, D.C., was not the anger of developing sector nations but the emergence of clear and coherent proposals to end their power over the world economy. In April 1975 a new proposal emerged which crystalized the impetus toward a positive alternative—the proposal for creation of an International Development Bank (IDB) to replace the IMF, a new world central bank that would provide low interest credits tied directly to hard commodity flows and new industrial and agricultural development projects. The proposal, authored by Lyndon H. LaRouche, international economist and chairman of the U.S. Labor Party, linked an IDB with a call for a debt moratorium that would freeze the speculative debt burdens of the Third World, allowing new credit to flow into producing greater real wealth rather than simple rollover of past debt.

Though debt moratorium was not a new idea, it was a proposal which, combined with a new monetary system, would in one fell swoop wipe out the entire inflationary credit structure that had been built up to keep the Bretton Woods system going since 1971. The numerous meetings of 1975-76, including the Nonaligned ministerial meeting in Peru in 1975 and the Conference on International Economic Cooperation in Paris—the "North-South dialogue" of 1975-77—were converging on this radical solution to the global crisis.

The Paris "dialogue" which included some 24 advanced and developing-sector nations became the main focus of the New World Economic Order battle. The dialogue was originally convened on French initiative with Mexican and Algerian backing as an attempt to actually reach agreement on the issues facing the entire world. But Henry Kissinger of the New York Council on Foreign Relations—then U.S. Secretary of State—rapidly moved at London's direction to derail the dialogue. Kissinger's first intervention was an attempt to make it a conference of oil producers and consumers, a transparent effort to shift the new world order debate toward a confrontation with OPEC; Kissinger tried to split the developing sector along oil and non-oil lines.

This effort failed due to French moves and the solidarity of the developing sector nations. Kissinger then moved to make Paris a monologue, with the Nonaligned developing nations embroiled in endless "talks" which led nowhere, while their ranks were subjected to a full battery of domestic destabilizations and IMF pressures.

The frustrations and ambitions of the Third World culminated in the August 1976 Colombo Summit which emerged with an Action Program that called in no uncertain terms for debt moratoria, creation of new international credit institutions and a new monetary system, and large scale transfer of technology to the Third World. The Colombo meeting also threatened that unless the Paris talks took a productive turn rapidly, they would be forced to take unilateral action, a statement understood by all to include unilateral debt moratoria. These moves at Colombo intersected two important developments—the presidential election campaign then on in the U.S., and a clear European signal of their intention to break ranks with the Anglo-American IMF bloc and "align" with the Nonaligned and their allies.

"The time has come for a debt moratorium"

The clearest expression of this sentiment in the developing sector was brought out into the open when the United Nations General Assembly convened in September of that year. While not all developing nations were ready to move strongly—far from it, as Kissinger knew so well—many were. Guyana, a leader of the Nonaligned group, expressed this when its well-respected Foreign Minister Fred Wills addressed the Assembly. Wills declared: "The Nonaligned Movement and the Group of 77 [the developing nations in the U.N.—D.S.] have tirelessly sought to bring home to those in the developed world ever resistant to change, that the economic progress of the developing countries is in the security interests of the developed countries. ... Their determination [the developing countries] is adamant, inexorable and relentless. The IMF and the Bretton Woods monetrary system must give way to alternative structures like international development banks, which are not geared to the revival and reconstruction of Europe nor preferential arrangements for the developed market economies, but rather to the just distribution of the gains of an equitable global system.

"The crippling problem of debt and servicing of debt has assumed a special urgency. Developing countries cannot afford to depart from their basic and fundamental demand made in Manila and Colombo earlier this year calling for measures of cancellation, rescheduling and the declaration of moratoria. ... We cannot afford to mortgage the future of unborn generations to the obligations of burdensome capital repayments and crushing debt reservicing. The time has come for a debt moratorium."

The Wills declaration, following on Colombo, made the ideas of the LaRouche IDB proposal the policy of the mass of humanity in the developing sector.

While this greatly affected political realities inside the U.S., not only helping to increase the influence of LaRouche and his supporters, but also striking fear inside the entire Anglp-American establishment, the Nonaligned and developing nations largely failed to see the opportunity before them to strike a deadly blow at their enemy. This was nowhere clearer than in Paris, where the resumption of the North-South meeting featured a split between certain developing nations who wished a final showdown there before the meeting reached a conclusion in December of that year, and those who favored "moderation."

Kissinger played on the moderates. The election of Jimmy Carter in November of 1976 was sold to many developing nations as a promise of a new "softer" and more favorable policy on the part of the U.S. toward the New World Economic Order demands. While Pakistan and others called for a confrontation—with Bhutto (Premier of Pakistan) pushing for a Third World Summit on the issue of debt moratoria and implementation of the new order—the "moderates" won out.

The result at Paris and otherwise was a deadly delay of the final battle into 1977. Carter, Vance, Brzezinski came in, Paris was resumed with the Anglo-Americans knowing they had already won the crucial psychological battle in the Third World's failure of nerve. Paris ended with a whimper in the spring of 1977, producing nothing. By mid-1977 virtually every Nonaligned and developing sector leader who had been in the forefront of this process, had been ousted, by coups and other means, including Indira Gandhi of India, Bhutto of Pakistan, Bandaranaike of Sri Lanka (the host of the 1976 summit), key Peruvian government leaders, Wills of Guyana (in early 1978), and others.

The period since this defeat has seen a mere shadow of the momentum formerly behind the New World Economic Order—the rhetoric has continued but the will and determination has been absent.

The events of 1978-79, however, have begun to provide a basis for shifting this situation. European determination to establish the new world order has been strengthened by the establishment of the European Monetary System and the French leadership, with German support, in creating a partnership with the developing sector, particularly in Africa and Asia. The U.S. situation has seen the collapse of Carter and the emergence of the LaRouche alternative, allied with prodevelopment elements inside the U.S. in a form much stronger than previously existed. It has also seen new shifts in the Nonaligned itself, as exemplified by the events in Nicaragua and elsewhere, which signal a revival of political muscle among these groupings.

The question at Havana then remains: Will the Nonaligned pick up where they left off at Colombo, with an added appreciation of the failures of the past and the opportunities of the present?

—Daniel Sneider

Japan under Ohira

In the weeks following the late 1978 election of Masayoshi Ohira as prime minister of Japan, a chorus of voices was raised in the Japanese and foreign press "analyzing" the political significance of his victory. The same theme was sounded by all the political pundits: an Ohira victory will not significantly change Japanese economic and foreign policy. According to the long accepted political wisdom on Japan, Japanese economic and foreign policy is formed by a "consensus" which emerges from a complex intermeshing of the bureaucratic, business and political world and which is known to the rest of the world as "Japan Incorporated." In such a world, the chance that Ohira, who was most commonly described as the most "Japanese" of all of Japan's political leaders, and a man who had emerged from the depths of the postwar machinery of "Japan Inc.," would challenge that "consensus" was seen as almost nil.

This political "consensus" on Ohira's ability (or inability) to alter significantly Japanese foreign policy was rejected by this publication as early as his rise to power in late November, 1978. In our view, Ohira's election was in effect the first major step in a London and New York orchestrated coup d'etat, their attempt to take control over Japan's foreign and economic policy. Now nine months after Ohira's victory, his actions as premier have torn away his mask. Ohira's own actions have directly changed Japanese foreign policy, and Japan's economic policy, and have changed these policies drastically.

Ohira's unmasking has occurred in fits and starts ever since he came to power in a victory that delighted his most prominent fan in the Anglo-American policy elite dealing with Tokyo—Edwin O. Reischauer. As Reischauer made clear to this publication at the time Ohira was the favorite candidate of the back-room Council on Foreign Relations crowd. Other hints about Ohira's personality, including the surprising fact that this most "Japanese" of all politicians was in fact a Christian, began to come to public attention.

A startled Henry Kissinger revealed in an interview with the Japanese paper *Yomiuri* that at a Trilateral Commission meeting in Tokyo this spring, Ohira addressed the gathering in perfect English. Despite his years of negotiating with Ohira, even Kissinger was unaware of Ohira's fluency in English!

Yet it was only in the time period beginning just before the Tokyo Summit, and continuing to today, that Japan has begun to experience the full Ohira policy in service to the Anglo-American elite. In this brief space of time Ohira has moved in a coordinated way on both the economic and foreign policy fronts to dismantle any semblance of an independent Japanese policy. Under the rubric of leading Japan into a "post-industrial" society Ohira has been waging an attack on the dirigist core of postwar Japan. Ohira's actual policy is in fact the dismantlement of "Japan, Incorporated" both domestically and as a significant influence on Japanese foreign policy.

Ohira's foreign policy: 'followism' of Washington

The process by which a nation shapes its foreign policy is by any standard extremely complex. For the Japanese, that complexity is heightened by the fact that since their defeat in World War II, there has always been an underlying fear in Tokyo that no matter what Japan did, the Americans were always inescapably there "looking over Japan's shoulder." The potential awkwardness of this unique relationship between victor and vanquished has been described, in the words of a famous Japanese phrase, as like "two people in the same bed dreaming different dreams."

Until the coming to power of current Japanese prime minister Masayoshi Ohira, the underlying trend in Japanese foreign policy since the early 1970's has been to carefully distance Tokyo from Washington's dominance so that Japan could develop a truly independent sense of "Japanese national self-interest."

This shift in Japanese foreign policy reached a high point under the administration of the man Ohira replaced as prime minister—Takeo Fukuda. Precisely because Fukuda was himself more subject to the demands of what heavy-industry circles of Japan understood as Japan's self interest, under his premiership Japan established crucial links with Germany, France and Saudi Arabia to force the United States to defend the dollar. At the same time Fukuda was the key figure in driving Japan into a political and economic alliance with Germany which would have ended Japan's postwar feelings of dependence on the United States.

Today the policies being promoted by Ohira are in every crucial way diametrically opposed to those of both Fukuda and his Liberal Democratic Party predecessors, Kakuei Tanaka and Takeo Miki. To make this point emphatic, Japan's current Foreign Minister Sunao Sonoda recently told a public meeting in Tokyo that Japan should not "rely on an alliance with West Germany but instead Japan should support France and England." Shortly after giving that speech, Sonoda flew to London to be briefed by British Foreign Secretary Lord Carrington before visiting Africa on a trip which followed British advice to the letter. According to the *Yomiuri Daily News,* one of the main purposes of Sonoda's trip was to weaken French and German influence in Africa.

Ohira's moves today to reverse Japan's still developing sense of independent diplomacy is in large part based on manipulation of Japanese fears that if Tokyo gets seriously out of line with the United States, Japan will be crushed again, as it was in World War II.

Despite Ohira's actions, however, the underlying tensions in the relationship between Tokyo and Washington have not eased. The same pressures which led to Fukuda's push to weaken the ties with the United States are still at work today. The pressure that the United States exerted against Japan via the recent oil hoax, although it succeeded in intimidating many Japanese political circles, is fundamentally yet another signal of a deep chasm of mistrust between the two nations.

What has changed inside Japan is not so much reduced mistrust of the United States, but rather, a rise in the Japanese's sense of their helplessness to do anything about changing that relationship. Under Ohira's direction, the climate in Tokyo is one of resignation and despair that Japan will ever be free of U.S. domination. The momentum and self-confidence underlying Japanese policy during the Tanaka, Miki and Fukuda years has been badly shaken.

The seeds of rivalry...

The rivalry between the two countries can be traced to the late 1960s when it began to become obvious to Tokyo that the Japanese could no longer simply sit back and watch Washington play its role as the leader of the Western world at a time when the United States itself was floundering about in a wasteful and strategically pointless war in Vietnam.

Even more shocking to Japanese foreign-policy makers, however, was the combination of American overtures to China, without Japanese consultation, as well as the 1971 unilateral U.S. decision to end the Bretton Woods system and its related gold standard—a move which forced a dramatic revaluation of Japan's yen. What that crisis year of 1971 crystalized in the minds of many of Japan's elite was the realization that with the U.S. acting not only in a weak but at times implicitly hostile manner to Japan's own self interests, a Japanese foreign policy *solely* dependent on the dictates of Washington could spell disaster for Japan in the future.

Beginning significantly in 1971 the Japanese began to develop a policy which became known as "shigenha" or "resource diplomacy" as Tokyo's implicit hedge to the rapidly depreciating value of total dependence on America. The "resource faction" groupings in Japan's heavy industry and bureaucratic establishment (best symbolized by the close relationship between Nippon Steel, on the one hand, and the Ministry of International Trade and Industry, on the other) began promoting a foreign policy which, while it would in no way place Japan in an adversary relationship with the United States, would greatly increase Japan's own independent foreign policy options—especially regarding access to important raw materials such as uranium and oil. In order to make sure the United States did not feel threatened by such moves, the Japanese stressed again and again in almost ritual fashion the "economics" and "politics" were two totally separate issues and that Japan would never allow itself to be led by "economics" into anti-American policy stands. Other nametags for this policy were "equidistant" and "omnidirectional" dilpomacy.

The man chosen to represent Japan's "shigenha" policy in the political world was Kakuei Tanaka, who rose to power in 1972 over his arch-rival, Takeo Fukuda, precisely because Tanaka was seen as a man less closely tied to the New York and Washington elite than the long-time Finance Ministry official Fukuda. A rough and eager hustler from the internal world of Japan machine-politics, Tanaka's victory over Fukuda for the premiership signaled that a consensus had been reached and that the "shigenha" option was to be developed. That view of Japan's role in foreign policy, to a greater or lesser degree, was also the view of the two men who succeeded Tanaka, Takeo Miki and then Takeo Fukuda himself.

The victory of Tanaka and especially his determination to pursue an actual "shigenha" policy angered Washington. The American opposition to Japan's taking a more independent "Gaullist" policy course was best expressed by then Secretary of State Henry Kissinger, who in a speech before the Japan Society of New York flatly declared that "equidistant diplomacy is a myth."

The American wrath at Tanaka was strongest over three points: (1) Japanese policy towards the Soviet Union; (2) Japan's Mideast policy; and (3) Japan's relations with Southeast Asia.

In all three areas, Tanaka tried to develop an independent relationship outside direct American control. Tanaka's late 1972 trip to Moscow to discuss joint Japanese-Soviet oil and energy development projects in Siberia was the first major Japanese overture to Russia since the aborted Japanese attempt to import oil from Moscow in the early 1960s. Before going to Moscow, Tanaka stopped off in Paris and Bonn. Tanaka's 1974 tour of Southeast Asia, aimed at developing independent ties with especially resource-rich indonesia, met with largely CIA orchestrated, "anti-Japanese" riots. The most dramatic point of Japanese-U.S. confrontation, however, occurred over the Middle East when, in the aftermath of the October 1973 Arab-Israeli war, Tanaka refused to accept Henry Kissinger's policy of backing Israel and instead tilted Japan toward a pro-Arab policy, especially with Iraq and Saudi Arabia. It was around this time that Henry Kissinger could be heard muttering to the Israelis that Tanaka was "anti-Semitic."

Shortly after Tanaka's dramatic Middle East stand, a series of events were set into motion that would wind up in the "Watergating" of Tanaka in 1974 on corruption charges, and later, a further weakening of his influence by the "Lockheed Scandal." For the Japanese both these events had a strong "Made in USA" stamp upon them.

Despite Tanaka's fall, the basic "shigenha" viewpoint of Japan's foreign policy role was continued under both premiers Miki and Fukuda. Before Fukuda's downfall in late 1978, an embryonic Tokyo-Bonn axis had been forged around the personal relationship developed between Fukuda and West German Chancellor Schmidt. The friendly reception Fukuda received at the Bonn Summit by Germany and France was the direct result of Fukuda's own support of the European Monetary System and the role the EMS was playing to stabilize the U.S. dollar. Fukuda's own vision was to use the Tokyo Summit to further strengthen the EMS-Japanese collaboration. At the same time, Fukuda launched a major initiative toward Washington to get the U.S. and Japan working on the joint funding and development of new energy technologies—especially nuclear fusion power—as the real long term solution to the "oil crisis."

The reversal of Shigenha diplomacy

The moves of the Ohira government within the last months have dramatically reversed the years of shigenha policy. Virtually every effort by Tanaka, Miki and Fukuda to lay the cornerstones of an independent Japanese policy has come under attack from Ohira. On the crucial issues of Japanese policy toward the Soviet Union, Southeast Asia and the Middle East, Ohira's policy has been targetted at ending Japan's attempt to create an independent diplomatic presence.

Japanese-Soviet relations have reached an all time low since the issuance a few weeks ago of a Japanese Defense Agency (JDA) report which publicly denounced the Soviet Union for its "military buildup" in Asia. In the past the JDA has pointedly avoided criticizing Russia by name as part of Japan's overall policy of maintaining a balanced relationship between Russia and China.

Earlier this spring the head of Japan's Defense Agency, Ganri Yamashita, had leaked reports to the press that the Japanese suspected the Soviet Union of building a secret base in Vietnam which, if completed, "could threaten Japan's oil lanes from the Middle East." Yamashita's hope, which has been strongly encouraged by both the Chinese and the U.S., is to use such scare-stories to reverse Japan's long-standing policy of only defending its own islands, in order to extend joint U.S. and Japanese naval patrols into the South China Sea.

The attempt of the Ohira government to greatly expand Japanese military coordination with Washington was also underlined by the historic first visit of a JDA head, Yamashita, to South Korea, which the Russians have denounced as a Pentagon-directed attempt to create a Japan-South Korea-United States military pact.

The attempt by Washington to use Japan to fill the American military vacuum left after the Vietnam war had been strenuously resisted by Japan before out of fear of jeopardizing independent relations with both China and Russia. The current government's attitude toward the Soviet Union was best captured in Sonoda's recent address in Tokyo. The Japanese press reports that the comic highpoint of the talk was Sonoda's imitation of Gromyko negotiating with him.

In Southeast Asia today, Japanese foreign policy is virtually indistinguishable from that of both Washington and London. Japan's Foreign Ministry leaked a report to the Aug. 1 *Yomiuri Daily News* that Tokyo fully supports the right of the murderous Pol Pot group to represent Cambodia at the U.N. According to the Pol Pot group's China-based "Voice of Democratic Kampuchea" radio broadcasts, Foreign Minister Sonoda met with a representative of Pol Pot's "government" in Nigeria. In early June, Sonoda, in response to a question from a pro-Chinese member of Japan's Diet, raised the possibility of giving "foreign aid" through groups like the Red Cross to the remnants of Pol Pot's brutal forces still in Cambodia. The Japanese government is also on record as supporting the Anglo-American attempt to reinstate Chinese puppet Prince Sihanouk in Cambodia. The Foreign Ministry announced in early August that Japan will unfreeze its foreign aid grants to Vietnam, in an attempt to increase Japanese leverage over Hanoi to push Vietnam into agreement with such a policy.

Nor has the Ohira government been particularly hesitant to state its actual policy in the region. In a press conference that Sonoda gave in Tokyo before visiting London he told the assembled reporters that Japan will urge England "to pay more attention to Asia" since the British presence is still "well respected" there!

Finally in a little more than a month Japanese policy towards Middle East nations has also undergone a dramatic shift. For months the United States had been pressuring Japan to support the Egypt-Israel "Camp David" treaty via financial aid to Egyptian President Sadat; a policy the Japanese have consistently avoided doing due to a fear of an Arab, and in particular a Saudi, backlash.

Now that policy, too, is changing. In mid-July Japan's Foreign Minister Sonoda gave a speech in Tokyo where he not only endorsed the idea of a U.S. military base in the Middle East, but went on to say that Japan was even recommending a site for the base to be built! According to the Japanese press, the Foreign Ministry building was flooded with calls from angry Arab embassy officials after Sonoda's views hit the press. Next month, Sadat will visit Japan where it is anticipated that major Japanese assistance to Egypt will be agreed on.

Japan's rapidly shifting policy towards the Middle East was earlier signaled in a *New York Times* interview with former Japanese Foreign Minister Kiichi Miyazawa, a doyen of Japan's foreign policy establishment. Miyazawa endorsed the idea of a "consumers cartel" against OPEC. This, the *Times* delightedly noted, was the first time an important Japanese leader had squarely come out with an anti-OPEC line.

The effect of Japan's reversal of the Shigenha policy is already being felt in the Middle East. One of the premises of "resource diplomacy" was the transfer of Japanese technology for oil. Yet when Masumi Esaki, the head of MITI, visited Saudi Arabia last month, he was met with heated Saudi complaints over Japan's stalling of development projects. The Saudis refused to increase oil sales to Japan unless these sales were directly tied to Japanese willingness to carry out its promised development project. In Iraq, Esaki was warned that if Japan fully endorses Camp David, the Iraqis would cancel their agreement to increase oil shipments to Tokyo. The Iraqis underlined Japanese economic support to Egypt as a test of their real policy. The loss of a powerful sense of a need to use Japanese technology for developoment of other nations by Tokyo itself has also hurt Japanese relations with Mexico.

The decision of Japan to drop its almost decade-long vision of Japan's role in world affairs is not simply reducible to the current prime minister's Anglo-American pedigree which is considerable. It is well known in Tokyo, for example, that in 1974 it was then Foreign Minister Ohira who tried to promote Henry Kissinger's "pro-Israel" tilt to then Prime Minister Tanaka, only to be rejected. Yet, as late as this May, Ohira himself was not in full control of Japanese foreign policy. Ohira's weakness was dramatically illustrated in a column by Council on Foreign Relations member Joseph Kraft, who interviewed Ohira in Tokyo on the eve of his trip to Washington. Kraft's argument at the time was that Ohira was so weak that the U.S. should use his trip to prop up his status in Tokyo. Kraft then told a story: after he elicited a favorable response from Ohira over the U.S. "Camp David" policy, a Foreign Ministry official in the room interrupted to "correct" Ohira and stress that Japan's policy was independent of Camp David!

Oil Blackmail

The shift in Japanese foreign policy, which has resulted in the tremendous strengthening of Ohira's own political future, is the direct result of the Japanese panic over the recent "Seven Sisters" oil hoax. During that hoax the U.S. majors, led by Exxon, dramatically reduced their oil shipments to Japan. At the same time, Tokyo was picking up signals both from Washington and London that another Middle-East war and subsequent oil price hike was a very live option, and that if Japan wanted to be sure to get a staple supply of oil, then Ohira, Washington's mouthpiece, had to be followed.

The pressure on the Japanese reached a high point at the time of the Tokyo Summit. Washington's approach hinged on a classic "carrot and stick" approach to ensure that Tokyo would not line up with the French. Using oil as the threat, the United States successfully used the "carrot" of conspicuously toning down the threats against Japan's exports to America. This change in Washington's appoach to Japan was especially notable when Ohira came to meet Carter in May. In line with this policy, the U.S. oil majors have recently told Tokyo that they would not have to reduce their oil shipments to Japan as much as they had initially anticipated.

These short-term moves by the United States, have for the time being stabilized Ohira's control over the political process in Japan. Yet the tensions in Tokyo over what path to follow still remain. These tensions were underlined by an incident that occurred in Saudi Arabia during MITI head Esaki's tour of the Middle East; the incident was virtually blacked out of the Japanese press, but reported by the *Le Monde*, Aug. 9. Esaki desperately wanted to meet with the Saudi oil minister, Sheik Yamani, but when he arrived in Riyadh, Yamani was conspicuously absent. Esaki then flew to London to try and meet with Yamani, but when he arrived Esaki was told Yamani was on a yacht and could not be bothered. According to *Le Monde*, the anger of Yamani with Japan was due to the Arab's perception of Japan's policy of "suivisme" (literally "followism") of the United States.

How long Ohira can keep Japan on the path of "followism" in the face of what will undoubtedly be increasing pressures from Arab and other quarters to reverse this policy, will ultimately determine the stability of his government in the months ahead.

—*Kevin Coogan*

'7-year plan': how to wreck an economy

Last week, Premier Masayoshi Ohira repudiated Japan's entire postwar economic miracle by adopting a seven-year economic plan which capitulates to Washington's demands that Japan "restructure its economy." The crux of the plan is a mammoth $1.1 trillion ($160 billion per year) public works program aimed at replacing exports and private capital investment with public spending. The $1.1 trillion figure is equal to Japan's entire GNP for 1978! At the same time, the plan aims to reduce Japan's dependence on oil for energy from the current 75 percent to only 48 percent in order to meet the Tokyo summit pledge to limit oil imports to 6.3 million barrels per day by 1985.

"The plan was drawn up under pressure from the international circles which are attacking Japan ... and it is ridiculous," exclaimed one angry Japanese banker.

Only last year an international scandal arose when Richard Rivers of the U.S. Special Trade Office bluntly relayed the U.S. Treasury's demand that Japan restructure its economy away from an industry and exports orientation to a services economy. Rivers was even forced to deny he ever made such demands. Now the Ohira administration has adopted that very program. After expressing astonishment at the huge size of the public works program, Philip Tresize of the Brookings Institution—which designed Carter's economic policy toward Japan—labeled the plan "a healthy move in the right direction" and said it would be welcomed in Washington.

Abandon EMF

Complementing the seven-year plan, the Finance Ministry in early August announced new restrictions on Japanese banks' international dollar lending which comply exactly with the demands made by former Treasury Secretary Michael Blumenthal during his February trip to Tokyo. The restrictions limit Japanese participation in international dollar syndication to no more than 25 percent or occasionally 33 percent of a given loan, and prohibit them from undercutting high Euromarket interest rates.

Under the policy of Ohira's predecessor Takeo Fukuda, Japan's banks had acted in alliance with Germany and France in implementing the European Monetary Fund (EMF) policy of issuing large volumes of low-interest dollar-denominated loans to developing countries for manufacturing projects, not just resource extraction. Thus, Japan's international dollar loans rose from a cumulative total of $7 billion at the end of 1977 to over $25 billion by this June. In February, Blumenthal told Tokyo that overseas yen loans were fine, but he would not tolerate Japan becoming such a powerhouse in dollar lending, particularly for manufacturing projects at rates lower than the exhorbitant Euromarket rates, and particularly in alliance with the EMF. While West Germany is continuing such loans to the benefit of its economy, the Japanese Finance Ministry has now ordered Japanese banks to cut back, under a clear threat: "The banks may encounter trouble in obtaining the necessary funds on the Eurodollar market. If the Japanese banks continue tapping the Eurodollar market to keep up their high pace of overseas loans, monetary officials worry, they might be hurt badly in an international monetary turmoil," according to the July 24 business daily *Nihon Keizai Shimbun.*

Under prime ministers Kakuei Tanaka, Takeo Miki and Takeo Fukuda, Japan's policymakers recognized that economic recovery at home depended upon restoring healthy world trade and capital formation, in contrast to the IMF's austerity policy. Fukuda in particular fashioned an alliance with Helmut Schmidt and Giscard d'Estaing, under which the combined financial resources of Europe, Japan and certain OPEC countries would be channeled to finance a recovery of world trade led by industrial development projects in the developing countries. This was also seen as the way to restore the value of the dollar, since the loans would be financed in dollars. Japan's own recovery would be led by exports of plant and equipment to the developing countries, not just television sets to the U.S. (See Figure I.)

Ohira is now forcing Japan to abandon any role in restoring healthy world growth, and is turning Japan inward toward a semi-autarkic economic model that can only be described as Schachtian. This is not simply a case of compromising under pressure from London and Washington, as certainly occurred under previous administrations, but an unprecedented adoption of the policy that Britain and the U.S. have tried to force on Japan since August 15, 1971.

The restructuring

The banks, who resisted a token effort by the finance ministry to curtail them last December, are furious at this more serious effort now: "We are bound to lose business and this will put a heavy squeeze on Japan's merchant banking in the future," commented one banker to *Nihon Keizai Shimbun.*

The seven-year plan's major features make clear the drastic change in Japan's economic structure which Ohira is trying to enforce:

1) Replace exports with public spending as the major stimulus to the economy;

2) Fulfill the Tokyo summit pledge to restrict Japan's oil imports—Japan has no domestic production—to 6.3 million barrels per day. (See energy box)

3) Double the stock of "social capital"—sewers, parks, public-financed housing, bridges, etc.—by 1985 at a cost of $1.1 trillion, more than 1978's GNP.

4) Finance the public works by raising taxes from current 20 percent of GNP to 26.5 percent by 1985. This does not preclude the need for additional massive public borrowing;

5) Achieve 5.7 percent real GNP growth per year on the average during the plan

6) Reduce consumer inflation to 5 percent per year

7) Reduce balance of payments to an "internationally acceptable standard."

"Mission impossible" was how the plan was described in a secret memo by Japan's Institute for Energy Economics. The memo pointed out that the plan is a contradictory hodgepodge; for example, it is not possible simultaneously to restrict oil consumption so drastically and maintain anything above 3 percent yearly growth.

The plan is, indeed, "mission impossible," but for even more fundamental reasons. The plan is an attempt to "restructure Japan to longterm low-growth in the era of limited resources." The political economy of Japan makes this impossible outside of an outright fascist government, which the Ohira administration is not—even considering Ohira's ties to the British-sponsored "strike north" fascists of the 1930s and the Schachtian economic content of his seven-year plan. Other Prime Ministers, including Fukuda, have given lip service to the codephrase "low-growth," but all have realized that it is impossible in practice. Ohira is the first to try to implement it.

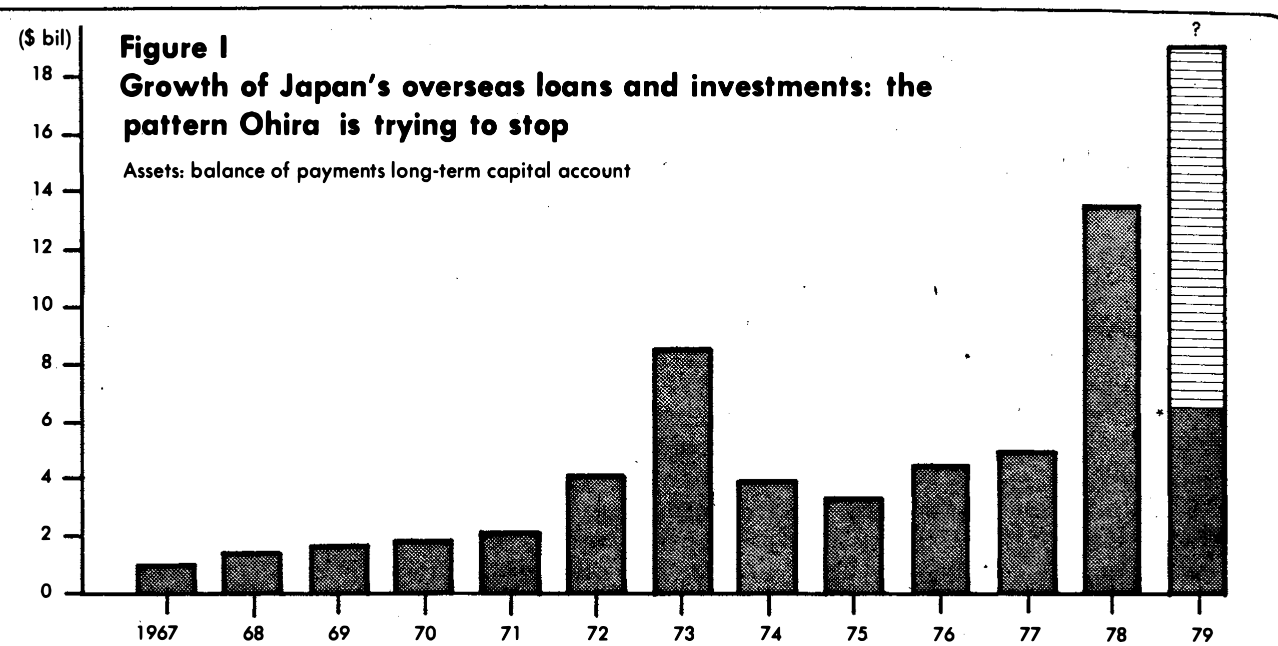
The plan proposes to replace private capital investment in industry which raises productivity, with public investment in social infrastructure which does not. Under such a program, the population will simply trade off private consumption for public consumption. Living standards cannot rise, while the inflation resulting from such a program will in fact lead to a cutback in living standards. As part of a program of industrial growth, balanced social investment is both useful and necessary. As a substitute for industrial growth, it can only create financial and economic chaos. Hope for a stable 5.7 percent real growth under such a policy is an opium dream.

How Japan's economy works

Japan is already in a financial crisis, the direct result of years of stagnation of world trade. For April through June, wholesale prices rose at the annual rate of 19

Figure I
Growth of Japan's overseas loans and investments: the pattern Ohira is trying to stop

Assets: balance of payments long-term capital account



Source: Ministry of Finance

*For 1979, full column is the investment that will occur if the pace-setting rate of Jan.-April (*) is continued for the rest of 1979. New Ministry of Finance rules are aimed at preventing this. In 1979, in contrast to earlier years, much of Japan's international lending was yen-denominated.

percent, the worst since the "crazy prices" of era of 1973. In June, the largest banks—who have been running on virtual negative interest margins for a year and a half—refused to buy any more government bonds until the bond yields and the discount rate were raised. The government, running a 40 percent budget deficit, had no choice but to comply: It raised the discount rate from 4.25 percent to 5.25 percent.

Ohira's response to this crisis in the short term is severe austerity and financial retrenchment. The finance ministry quota for total new domestic lending by the largest banks means an 8 percent reduction from last year, the worst cutback since postwar recovery took off in 1955. In the longterm, Ohira's answer is the seven-year plan.

A look at the basic structure of the economy makes clear why the Ohira program can only exacerbate this crisis. During the postwar "miracle" years of 1955-1971, Japan's economy was a model of industrial development that any economy, whether "mature" or not, can follow. Japan experienced not only high rates of growth, but more importantly, accelerating rates of growth. The key to this was that capital formation continuously rose as a percent of GNP, reaching 30 percent at the high point of 1970 (not including government investment). As a result, labor productivity also rose tremendously, as much as 12-14 percent per year. This meant living standards could triple during the same period while consumption declined as a percent of GNP! (See Figure II.)

Exports—while not so high a proportion of GNP (only 12 percent)—were the engine of this process. Japan was a "future-oriented" economy, geared to the growth of world trade. Its plans for the 1970s were to shift to exports of plant and machinery, not just autos and TVs.

August 15, 1971 and the oil crisis of 1973 sent Japan into an economic crisis from which it has never recovered. Not so much because of their direct effects on Japan, as because of their effects on world trade as a whole. The 1955-71 growth was financed by huge corporate debt-loads, which remained perfectly manageable as long as high productivity increased and high growth remained. Without that buffer, the debt loads become unmanageable. The crisis of 1971 immediately caused spiralling inflation, reaching 30 percent by 1973 in a country where inflation had been virtually non-existent during the 1955-71 period. This was followed

Ohira slashes Japan's nuclear goals

Perhaps no other issue better expresses Premier Masayoshi Ohira's attack on the entire thrust of postwar Japanese economics than his downgrading of Japan's nuclear and fusion power programs. His administration proposes to spend $25 billion over the next 11 years on such "alternate energy sources" as coal, coal liquefaction, solar energy, etc. while reducing the previous 1985 target for nuclear power by 15 percent and that for 1990 by 10 percent. Meanwhile the plan "includes a removal of nuclear fusion on which a considerable amount of money has been invested," according to the *Mainichi* of July 17.

Much more than Japan's energy resources is at stake here. The course of the entire economy is altered by this energy proposal. In 1971, Japan's Industrial Structure Council—a business advisory body to the Ministry of International Trade and Industry (MITI)—developed a long-term economic plan whose core was making Japan a fusion-power economy by the 1990s or 2000. All investments in other industries, development of computers, transfer of technology to the newly industrializing nations and other key decisions were organized around the key target of bringing Japan into the high-technology "knowledge intensive" era of fusion power. Nuclear power was viewed as a transition to that era. One MITI official predicted, "By the year 2000 Japan will supply half the world's energy by mass production and export of fusion power machines." Not unimportantly, possession of substantial nuclear and fusion power resources would free resourceless Japan from energy blackmail by Britain and the United States through Anglo-American control of the seven oil multinationals.

To this end, under programs launched by Prime Ministers Takeo Miki and Takeo Fukuda, Japan raised its research spending on fusion tenfold, from only $40 million as its share of joint research with the U.S. proposed by Fukuda. Ohira is now relegating fusion power production to some time in the next century, and cutting out further increases.

Planners in the early 1970s envisioned Japan getting 20 percent of its electricity from nuclear power by 1980 and 30 percent by 1990, at the least. Instead, due to "environmentalist" pressure, nuclear is only 10-12 percent of electricity now, and Ohira has reduced still further the already bleak target of 20 percent by 1990.

For the dubious purpose of lowering oil as a source of energy from 75 percent to 48 percent by 1985, Ohira proposes that Japan mimic Jimmy Carter's energy program.

by the 1974-75 depression when industrial production fell 11 percent. Previously, the word recession in Japan meant growth of only 3 percent.

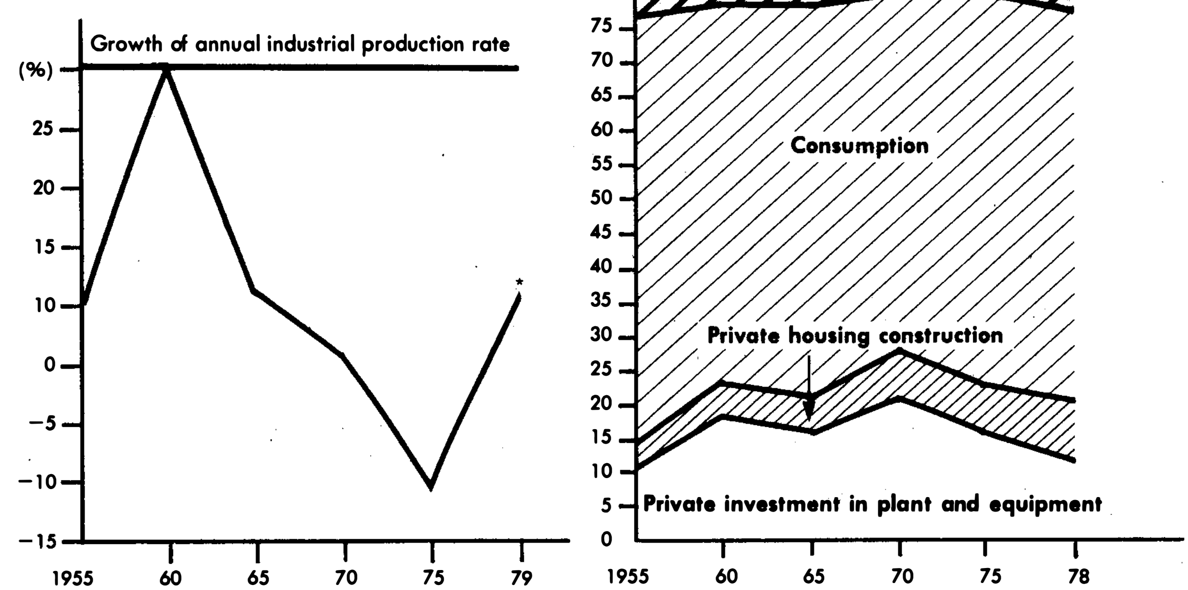
Japan "recovered" from that recession only by an unsustainable export boom. The boom was based on vastly increasing Japan's market shares, not on overall growth of world trade. The boom had to end as long as IMF austerity policies and Euromarket speculation prevailed. U.S. protectionism simply hurried the end.

This news service has always maintained that in the absence of genuine world trade recovery, Japan has a latent inflation rate of 25-30 percent. The inflation can be suppressed or hidden but not eliminated. Once the export boom ended (as it did with 1978's real export decline of 0.8 percent, a further 3-4 percent decline in Jan.-June of this year), then Japan immediately faced either raging inflation or deep recession or some combination of the two. (See figure III.)

Fukuda's 1978 policy was to hold the economy together domestically while working for a genuine international recovery through his cooperation with Germany, France, and sections of OPEC.

What would have been simply an extended period of financial strain until international trade recovered, has now become a financial crisis precisely because Ohira abandoned Fukuda's international economic policy. Corporate, banking and government finances are all stretched incredibly taut. Corporate managers throughout the last two years channeled all their efforts into reducing the debt load that now threatened them with bankruptcy. In fact, in 1978, for the first time in postwar history, the manufacturing corporations actually reduced their overall total cumulative debt by 3 percent—an unheard of phenomenon anywhere in the advanced industrial world. At the same time they limited capital investment to rationalizing or patching up

Figure II
Japan: the model economy until 1971



*1979=Jan.-June 1979/Jan.-June 1978 Source: Ministry of International Trade & Industry

Except for the hiatus of the 1958 recession, the secular tendency of the growth of Japan's annual industrial production rate was up between 1955 and 1971, with private capital investment reaching a high point of 28% of GNP in 1970. In that same period, the rising ratio of capital output to consumption (the latter fell from 64% to 53% in the same period) produced increases in labor productivity which allowed personal income to *triple* in that period, while overall GNP multiplied by a factor of 4.5. After 1971, when the growth in industrial production fell to near zero, investment has fallen, and consumption risen as percentages of GNP, while real wages rose no more than 2% between 1975 and 1979. The Ohira program will reinforce the tendency to stagnation in productivity and capital formation; restoration of Japan's pre-1971 economic dynamo appears to depend on a general upturn in the world trade picture.

their existing base, not to expansion.

Very many corporations survived only because the banks gave them under-the-table debt moratoria and because the interest rate banks charged went below the rate the banks had to pay on deposits. Half of the 13 largest banks—who do virtually all of the lending to the big "zaibatsu" companies that dominate the economy—ran negative interest margins, also unheard of elsewhere. Meanwhile, the government ran a 40 percent budget deficit!

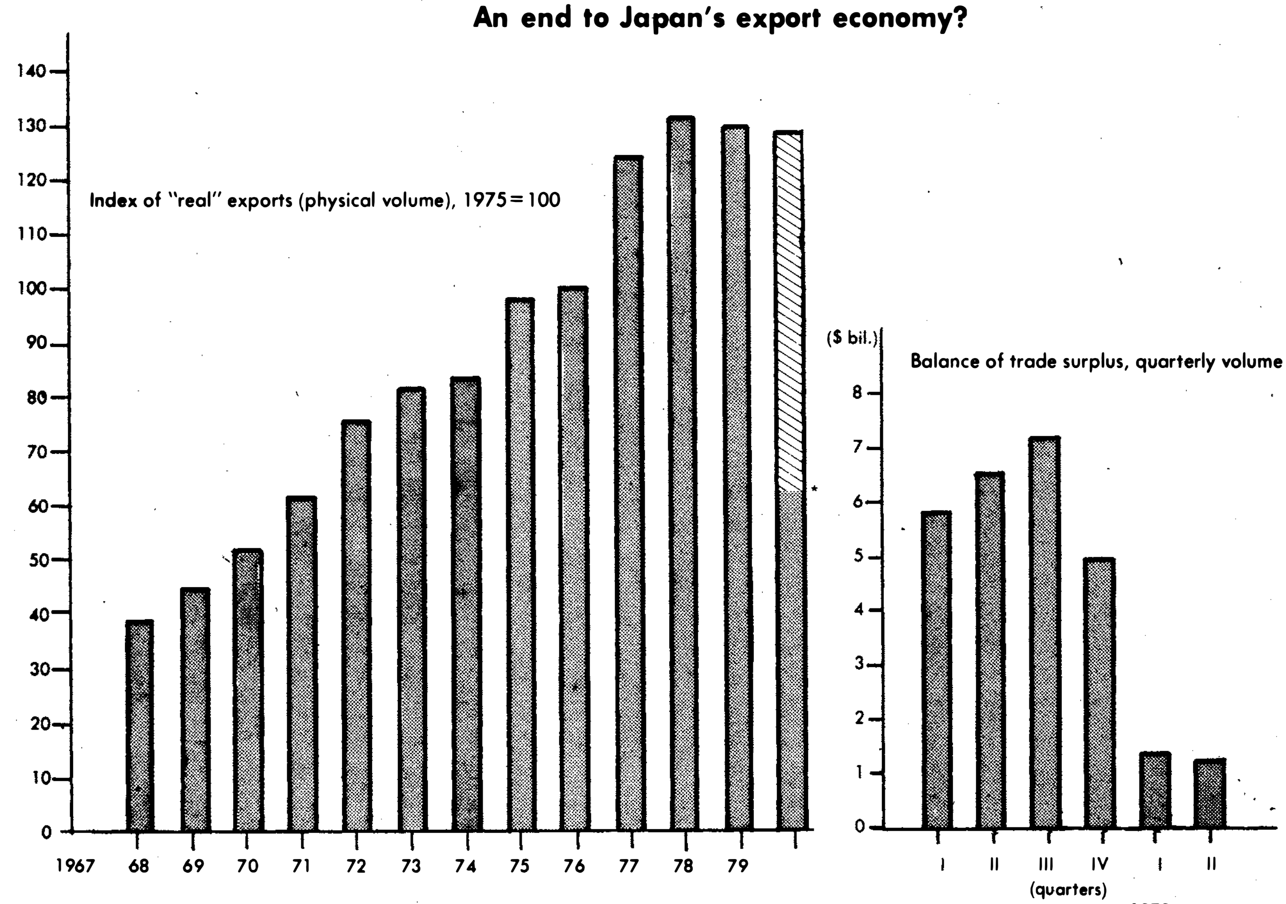
In fact, in no other advanced economy could the economy survive while half the leading banks were running virtually negative profits under conditions of large government deficit. Japan's economy has surprising resilience because of the long years of capital investment, and secondly, because politically the Japanese are willing to say, "*Let's ignore the numbers and keep production going.*" The Bank of Japan made sure the banks were sufficiently supplied with funds to maintain this bailout policy.

This policy was only possible, however, when the yen, the Japanese currency, was stable or rising, as it was last year. Then inflation was suppressed—wholesale prices in fact fell 4 percent in 1978. But once the yen came under attack, as it has been since oil prices rose, then the central bank could not continue funding the banks to enable them to bail out the corporations. Previously latent inflation then raged into the open. In Japan, by April-June, prices were rising at a 19 percent annual rate.

Ohira's only answer is austerity—the worst credit crunch since 1955, a proposed 1980 budget with the lowest rise in spending since 1961, and immense taxation to sponsor a public works-based economy. Not even the Japanese miracle economy can survive such a policy.

—Richard Katz

Figure III
An end to Japan's export economy?



*EIR estimate, Jan.-June 1979; full column is extrapolation based on Jan.-June rate.

Source: Ministry of International Trade and Industry

Brazil embarks on alternate-energy-based 'war economy'

"We'll soon have to get used to living under a war economy,"-Brazilian President J.B. Figueiredo admonished the Brazilian people July 4. The entire economic process of that nation of 120 million people, he declared, would "have to be subordinated to the higher interest of resolving energy and balance of payments problems." His solution: oil supply cutbacks combined with inflationary, labor-intensive oil substitutes like coal, charcoal, and, especially, alcohol made from sugar cane.

The higher costs of producing these substitutes for imported petroleum will be partially compensated for by reducing further the consumption levels of the population and by postponing vital social and economic infrastructure projects for years, or even into the next century. Although the program purports to lead Brazil into a new epoch less dependent on petroleum, the energy component of Brazil's model nuclear agreement with West Germany is an apparent casualty of the "war economy." Budget cuts and the diversion of tax revenues to less efficient synthetic fuel investments are already resulting in thousands of layoffs at the nuclear construction sites. While it dares not renounce Brazil's agreement to order from Germany a complete nuclear fuel cycle and eight reactors supplying electricity by 1985, the new Brazilian government policy is to "stretch out" the program for at least the rest of this century.

The "war economy" announcement signals the end of a decade for Brazil, in which cheap energy—coupled with cheap labor and generous government subsidies—brought unparalleled profits to multinational and local industrialists, and rapid growth in Brazil. Finance Minister Mario Simonsen explained July 5, "The war economy, in the Brazilian case, demands a quota of sacrifice from everyone. ... War economy means recycling industries to adopt new forms of energy." Although a month later there was still considerable confusion even in the Presidential Palace over the "optimal" mix of depression-inducing rationing and hyper-inflationary oil derivative price increases needed to compel shifts to lower quality and more expensive fuels, there is little doubt that the upcoming Third National Development Plan will subject industry to the kind of brutal "recycling" which has victimized Brazilian labor since 1964. Especially during the peak of the "Brazilian Miracle," employers "recycled" labor through mass firings of workers just before they became eligible for annual pay increases and simultaneously hiring new crews at lower wage levels. Through "recycling" and other tricks pioneered by newly appointed Planning Minister Delfin Netto and Ambassador to London Roberto Campos, Brazilian labor lost 47 percent of its real wages, according to the DIEESE labor think tank. This has not only restricted the depth of Brazil's consumer market, but has also created an immense scrap heap of "marginalized" and bestialized population which remains as a social "time bomb" for any government.

Figueiredo blamed OPEC for Brazil's energy woes. Substantially identical to President Jimmy Carter's notorious "Eizenstat memorandum," the Brazilian leader received a late June missal from then planning minister, Mario Simonsen, which urged that the president (1) place the blame for the disastrous economic situation of his country and the world on the recent OPEC oil price increases; and (2) take strong leadership in imposing oil consumption cuts and in rapidly developing synthetic fuels as a matter of "national security." Accordingly, Figueiredo exhorted his countrymen that they must accept "more inflation, greater balance of payments deficits, have to get used to the imminence of living under a war economy. ... The nation must accept sacrifices and accept them with pride. Without them, our model of economic of social development will fall like a house of cards. ... Because of its impact on the balance of payments, the energy question will become my government's top priority...."

Simonsen's decision to use OPEC as the pretext for triggering the Brazilian "war economy" is particularly ironic, since Brazil's political friendship with Arab OPEC nations such as Iraq has given it a sure supply of oil at all times. The real problem is the mounting pressures from international bankers for Brazil to self-cannibalize in order to pay its rapidly mounting debts. Brazil's 1979 debt service is projected by the official Fundaçao Getulie Vargas (FGV) to be $10.4 billion (See chart). When combined with oil imports of $7 billion per year (up $2 billion from last year), these two items alone far outstrip Brazil's projected $15.2 billion export income. And, the FGV thinktank correctly projects that the debt crunch will worsen over the coming years.

Pilot "Dark Ages" project—what it means

What is happening is that—by means of the leverage this debt gives the international financial community over Brazil's austerity-minded military government—Brazil is being made a pilot project in low-technology "alternate energy sources" by the "New Dark Ages" advocates centered in London and the New York Council on Foreign Relations. The Brazilian energy program will be replicated in developing countries throughout the world, and even in the United States.

The situation was anticipated by the World Bank, which in successive reports on Brazil has demanded that the country abandon its ambitions to become an advanced industrial nation and instead dedicate all its resources to under-capitalized, labor-intensive agricultural and artisanal production—systems which can crank out loads of debt-paying exports while requiring little imported fuel, capital or technology. In fact, Figueiredo's selection as president was influenced by Anglo-American operations devised to effect such a policy switch. Even with radical policies of replacing imports with ersatz fuels while pumping out exports, Brazil's ability to meet its debt obligations is problematic. As even Figueiredo pointed out, if the world goes down a depressionary path, the markets in Europe and elsewhere targeted for Brazilian export expansion will be increasingly closed off by protectionist reactions. Several bankrupt state agencies are already "renegotiating" their debts, and the *Financial Times* of London concedes, "the servicing burden is reaching nightmare proportions." It is likely, therefore, that Brazil will soon be compelled to adopt ever more devastating policies in an effort to preserve the "credibility" of its $45 billion foreign debt.

New energy programs

The main objective of the Simonsen-Figueiredo energy policy are:

1. Freeze net oil imports at current 960,000 barrels per day level. Future economic growth will depend entirely on energy conservation and bringing on line domestic non-nuclear energy sources.

2. Boosting domestic oil production from the present 170,000 barrels to 350,000, or, "if God is Brazilian," to 500,000 barrels per day by 1985. The Petrobras state monopoly over on-shore drilling and refining will be broken so that multinational oil companies can wildcat under risk contracts.

3. A scheme to turn sugar cane into ethyl alcohol—the centerpiece of the substitution program—which can be used straight by special auto engines now being mass-produced in Brazil or used in existing cars when mixed with gasoline as "gasohol." Brazil's gasohol program is the world's biggest and most advanced. Brazil has already invested $2.8 billion in alcohol production and is giving top priority to throwing another $5 billion over the next six years to sow the country with cane fields and stills.

4. The major fuel oil burning industries, starting with cement, will be forced to convert to coal. The Procarvãe program calls for $10 billion in investments by 1985 to raise coal production and convert industrial boilers. Another several billions will be required for coal transport infrastructure.

5. Simonsen's memo called for increased use of "biomass," such as firewood and charcoal, which currently supply 26 percent of Brazil's fuel consumption. Brazil has always had a high "natural fuels" component of its energy balance. Even today, 12 million impoverished rural families (40 percent of the population) have no fuel source other than firewood.

6. The nuclear industry will be recycled from being an energy source (requiring substantial investments and imports from Germany) to be become a source of foreign exchange through the export of Brazil's estimated 193,000 tons of uranium oxide ore production.

Brazil's balance of payments

(in millions of dollars)

	1978	1979	1980
Total exports	**12,651**	**15,277**	**17,811**
Coffee	2,288	2,642	2,830
Manufactures	6,242	8,090	9,777
Total imports	**13,639**	**17,243**	**19,183**
Oil	4,310	6,506	7,414
Trade Deficit	**– 988**	**– 1,966**	**– 1,372**
Service account deficit	**– 4,903**	**– 5,992**	**– 7,092**
Interest on debt	– 2,695	– 3,477	– 4,243
Total current account deficit	**– 5,891**	**– 7,958**	**– 8,464**
Net capital inflow	**9,771**	**5548**	**8,572**
Foreign loans	14,035	11,510	15,691
Foreign Investments	906	1,000	1,100
Debt amortization	– 5,170	– 6,961	– 8,218
Balance of payments	**3,880**	**– 2,410**	**108**
total debt service	**– 7,865**	**–10,438**	**–12,461**
Debt service, % of exports	62.2	68.3	70.0

Source: Fundação Getúlio Vargas, July 1979 projections.
Positive amounts denote inflows; negative amounts denote outflows.

Energy Minister Cesar Cals' calculates that the known Brazilian uranium would fetch $14 billion as yellow cake and $37 billion as enriched uranium in today's world market. As construction of power stations under the German accord is "stretched out" decades into the future, Brazil will seek to speed up the manpower training aspects of the deal so that Brazil can market its nuclear capacities to third nations. Rio's *O Globo* reported July 22 that the pace of construction work on the first German KWU plant at nearby Angra des Reis was halved in June and thousands of workers layed off, due to cuts in the nuclear energy budget.

7. Simonsen defended the triaging of nuclear budgets on the grounds that capital costs for nuclear plants are triple those of hydro-electric installations. However, industrialized Brazil is already 100 percent dependent on hydro sources. Last year's droughts forced energy rationing throughout the industrialized region, despite the reactivation of some small oil-fired plants.

Despite the $14 billion dam-building program, shortages are expected to heighten during the 1980s. Energy Minister Cals announced that plans to facilitate interregional power shipments, including the transmission of the immense hydro-electric potential of the Amazon Basin to the industrialized southeast, had to be canceled due to budget cuts and the increased costs of aluminium transmission lines. By the end of the century, Cals stated, half of the country's electricity will be in the jungle, therefore, industry will have to relocate there. "Now, the entire national economy has to be oriented in terms of the origins of energy. Whoever is interested in locating projects which consume a lot of energy must endeavor to site them near the dams," Cals warned.

Fuel inflation

Figueiredo entered the presidency in March amid somber pronouncements that inflation would be the death of the nation. Simonsen was given the power of "superminister" to reduce inflation from the 39-46 percent range of the last few years. Business International's Rosemary Werrett applauded Simonsen's policies and forcast his success in cutting inflation to 37 percent. By the end of July, however, the FGV reported that prices had already risen 30.4 percent compared with 23.9 percent for the same period last year before Figueiredo took office. The cost of feed rose 9 percent in July.

The "War economy" will bring with it an added, hyper-inflationary explosion in energy costs, tempered only by stiffer enforcement of wage and price controls which will rapidly erode real earnings and profits. In July, the National Petroleum Council began enforcing diesel oil supply quotas to prevent consumption increases. By July 20, 90 percent of the tractors in the North of Rio state and Minas State were out of gas, and hundreds of trucks littered the highways. Fohla reported that Figueiredo's chief brain-truster, General Golbery de Couto e Silva, convinced him that serious rationing would bring a rapid recession and the social explosion of the unemployed. Golbery argued that in a market economy, consumption could best be cut through sharp price increases and Simonsen's anti-inflation crusade.

So, on July 30, diesel and fuel oil prices were hiked by 50 percent. The National Petroleum Council seeks to increase gasoline to $2.07 per gallon. And Eletrobras is thinking aloud about making up for its budget cuts by eliminating bulk sales discounts given to industrial users of electricity, in line with the government's proclaimed policy of "income redistribution." Inflation will go through the roof in August and following months.

Alternative fuels: the strange case of cement

The cement industry was selected as the first industry

No more miracles

Delfim Netto, "the architect of the Brazilian miracle," replaced monetarist Mario Simonsen in the command post of the Brazilian economy Aug. 15. Delfim served as Finance Minister during the 1968-73 period when heavy foreign investments brought average annual growth rates above 10 percent.

But nobody should expect another round of rapid growth from the ambitious new Planning Minister. Delfim's job will be to preside over the deindustrialization of Brazil at whatever cost in terms of inflation and increased foreign indebtedness. Simonsen, a notorious tight-money man, was booted out of the cabinet Aug. 10 for his reluctance to release the huge funding required for the energy autarchy policies outlined in this report.

The replacement operation was enginnered by General Golbery do Counto e Silva, the brains of the Figueiredo regime, who reportedly is feverishly at work figuring out "which alternative energy source could provide the most employment with the least investment." Golbery is seriously considering doubling the alcohol program and speeding up coal gasification, oil shale and all other synthetic fuels in proportion to the inefficiency of their use of labor.

Golbery's concept is that Brazil's "house of cards" can be held up so long as the population is kept employed, even at starvation ages. This "political" consideration will take precedence over all "economic principles" as Brazil is re-geared for a re-run of Hjalmar Schacht's hyper-inflationary German experiment.

to be "recycled" because it is responsible for 6.5 percent of Brazil's total petroleum consumption; and 80 percent of this is concentrated in 57 large cement plants located at an average distance of about 400 miles from the Santa Catalina coal fields. Despite this concentration, it will take several billion dollars and several years for Brazil's pick and shovel mines and railroad facilities to be expanded to provide the coal, and an extremely high-ash product at that. Coal costs a third more than fuel oil, even after oil price hike, and the coal operators are expecting substantial increases in order to capitalize expansion costs.

The coal substitution program evoked a most interesting response from Jose Emirio de Moraes, the most vocal of Brazilian business "leaders" in sounding off against state involvement in the economy, against nuclear development, and for use of biomass and other domestic fuels. An outspoken "free enterprise" ideologue, De Moraes happens to own 17 cement plants and, like many free enterprises, shirks at applying Dark Ages precepts when his own pocketbook is directly at stake. De Moraes declared he would gladly convert from oil to coal, "if there is a guarantee, which only the government can give, of the availability of the product." He would even employ more energy-saving dry-process technology, "but it is necessary for the government to stimulate and finance this substitution."

But what really sent de Moraes for a loop was the suggestion by Mario Garnero, the business representative on the new government National Energy Commission, that industries immediately shift from burning oil to charcoal. De Moraes responded that it wouldn't work, because, "for example a plant which makes 1,000 tons of cement per day would need 20 million board feet of eucalyptus wood, requiring 41,500 acres of land and 6 or 7 years for tree maturation." In a year, a single cement plant would cause the deforestation of 14.5 million acres. To supply the industry permanently, 6 billion acres would have to be planted and replanted with eucalyptus.

This proposition is absurd from a logistical, economic, and even environmnental perspective. It effectively illustrates the extremely destructive nature of biomass conversion and synthetic fuels generally when you try to run a large-scale economy on them.

Gasohol

The Brazilian gasohol program offers another example of similar nature. The distillation of synthetic fuels from crops was used by the Nazis during their periods of greatest desperation. In Brazil, the stretching of gasoline through the addition of 10 to 20 percent ethyl alcohol has been cheered on by everyone from the local leftists to General Motors President Elliot Estes, who flew down from Detroit to laud Figueiredo since, "Brazil is the first country to present a valid alternative for the fuel crisis, which is alcohol."

This year, Brazil will produce 1 billion gallons of alcohol from distilling sugar cane. In the United States, Midwest Solvents, an efficient producer of grain alcohol, estimates that 2.7 times as much energy is needed to produce the alcohol as the energy content of the final product. What permits Brazil to gain more liquid fuel than that expended in the production process is that the Brazilian system maximizes the burning of biomass (cane bagasse) to power the cane milling and heat the distillation, while utilizing human and oxen muscle power in the cane fields instead of fuel-burning machinery. A leading manufacturer of sugar mills and distilleries, Dedini, estimates that 500,000 new jobs have been provided by the alcohol industry. And the Figueiredo government aims at tripling production before leaving office.

A simple calculation shows that the average productivity of these workers is equal to 2,000 gallons of alcohol per year or about 7 gallons per working day. This 7 gallons permits Brazil to save about $2.50 per day on crude oil imports. So, even though the cane workers are paid only about $3 per day and have to bring their wives and children into the fields for the family to survive, the cost of alcohol is double that of gasoline, which saps the tax revenues and capital accumulation obtained through high gasoline prices.

To cut the cost of drying the 12 gallons of toxic distillery waste which comes with each gallon of alcohol, the distillers dump the toxic substance into the rivers, causing more river-killing pollution than the untreated sewage of Brazil's cities.

Another by-product of the alcohol program is government incentives, including long-term loans at interest rates of 40 percent below inflation, have pushed farmers to plant several million additional acres of the country's richest land in sugar canes. Although no government official will mention it in public, the $2 billion that Brazil will spend this year importing foodstuffs is probably due as much to the displacement of food crops by cane as to the regional droughts and floods. Even from a balance of payments perspective, the misuse of food-producing land and labor for Nazi-style squeezing of bits of energy may well be a false economy.

—*Mark Sonnenblick*

Conference plans cities for Africa

FEF sponsored event in Paris presents a comprehensive program for development

A conference on economic development in Africa, held in Paris at the end of June, now promises to have a very great impact on the thinking of Third World leaders and industrial-nation policy-makers. The conference, sponsored by the Fusion Energy Foundation, the American-based scientific think-tank, was attended by 50 persons during the three days of proceedings June 27-29. Those attending heard ten speakers give a combined presentation of the most detailed, thoroughly researched and rigorously conceptualized industrial development program ever advanced for an undeveloped region.

The program is not a summation of national perspectives, but continent-wide; national programs and projects for regions like the Sahel are spelled out, but as integrated features of an all-African development. The program's goals are ambitious— to make Africa an industrial leader by the year 2000—and the speakers proved it feasible. The costs and labor requirements in numbers and training for a vastly expanded mining industry, a strong, technologically advanced basic steel industry, a network of biochemical centers, a fertilizer-rich, highly irrigated and mechanized agriculture were set forth in detail.

The infrastructural requirements of such an African "industrial revolution" received a similar fine-tuned treatment: the needed transportation grid, encompassing rail, road and harbor, with investment requirements spelled out; the needed energy grid, incorporating coal and hydroelectric potential, but a nuclear-technology "building block"—nuplexes, which are nuclear-based "cities" built at chosen locations as integrated complexes of energy-intensive industries.

The distinguished group of speakers rejected at the outset the "neo-Malthusian" approaches of the International Monetary Fund and World Bank as contrary to any African development prospects. The conference's program for American—"Hamiltonian" —crash development, now being printed up for broad circulation in the form of a transcription of the proceedings, owes its growing influence in part to the fact that it has been introduced to intersect policy-initiatives by France, West Germany, Mexico, the Soviet Union and several Arab nations which also openly or implicitly reject IMF-World Bank "self-reliance" programs for the Third World. The policy goal shared by those nations' policy-makers and the Paris development conference is technology-transfer to developing nations and cooperative energy agreements essential for an effective development program in any part of the world.

One major address, which we reprint in full below, "The myth of equilibrium economics," was delivered by Lyndon LaRouche, the U.S. presidential candidate who is chairman of the U.S. Labor Party. Other speakers included Hans Bandmann, Philip Golub, Pakdee Tanapura, Marlene Godwin—all of the Fusion Energy Foundation in Paris—whose addresses concentrated on leading features of the development program. Their remarks were complemented by Helmut Bottiger, who outlined the nature of the industrial nuplex; Helga Zepp-LaRouche, who leads the European Labor Party in West Germany, spoke on the relevance of the renaissance periods in European and Arab civilizations. Professor Koto Essomé, a historian and mathematician at the University of Paris, delivered a moving account of Africa's similar city-building tradition. Dr. Emmanuel Tremblay, a reknowned French physician and author, spoke on the demographic effects of African development. Dr. Andre Dodin, a nutrition expert from the Pasteur Institute, addressed the problem of epidemic disease prevention.

A city-building past

Professor Essomé's speech well summarized the militantly pro-development thrust of the conference. For long Africans "have been told by their British colonial authorities that they exclusively do not have the privilege of inspiring themselves from the past—that they never knew the fascination of cities, but unlike all other peoples, were condemned to dispersal in many primitive tribes." Essomé proclaimed this a myth, and used his command of African history to establish that Africa knew mighty civilizations prior to the 17th century, boasting cities as large or perhaps larger than any in Europe or Asia.

"This alibi, of precolonial virginity," he continued, "is a pretext for the colonial and neo-colonial remodelling of Africa. The cliché is that Africans are dedicated to rural life... We have to establish reality. Historians like Al Bekri, Ibn Khaldoun and Ibn Battuta have spoken of the existence of cities in Africa, as large as the ones in Europe and Asia at that time. This holds a lesson for the future... Africa today is a panorama of a continent-divided. The anti-urbanism now existing in Africa, however, cannot eliminate the memory of what a high degree of urbanism was achieved before the cities were destroyed by the slave trade. This anti-urbanism must be ended.

"Why should Africa have defied the law that all developing regions move toward a concentration of the population? This is the myth that precolonial Africa was cut off from the world. But in fact, it was integrated with the rest of the world. The Ghana kings, Sonni Ali, the Sonrhay Empire, organized vast trade routes and built canals. Kankan Moussa, the King of Mali, administered an intense commercial life. There were vast organized movements of population and vast trading networks accross Africa.

"In the Western Sudan there were many towns trading to the Mediterranean; excavations at Kumbi Saleh, the capital of Ghana, show a well organized shop and market system. There were many towns with concentrations of population without equivalent in West Africa today. Timbuktu, Jenne, Oulata—all had more than 100,000 inhabitants engaged in world trade. Jenne's shops sold cereals, butter, pepper, dried fish...

"Were non-Africans responsible... Did expanding Islam build the cities and develop the trade?... Houses of the Sudanese type like Kumbi Saleh, Timbuktu, were built with local materials. This area didn't wait for the expansion of Islam... Kumbi Saleh was built in the third Century A.D., before Mohammed... In cities of the southern equatorial type, vegetable material was used for buildings. The buildings at Zimbabwe, that have been attributed to the Phoenicians, to everyone in fact except the Africans, required as much ingenuity as the Egyptian pyramids.

"Africa was not cut-off, but integrated with the world... Africa was not a people of tribes, but of cities and civilizations... The veil must be lifted on the genius of the African city-builders."

—*Vin Berg*

The myth about

The following is the text of the address which U.S. Labor Party Chairman Lyndon H. LaRouche delivered to the Fusion Energy Foundation's Conference on African Development on June 27 in Paris.

For more than half a century, it has been well known that the application of 20th century science and technology can transform the semiarid, starving region of the Sahel into the breadbasket of the African continent. President Franklin Delano Roosevelt outlined the main features of such a postwar effort to Prime Minister Winston Churchill during their wartime meeting at Casablanca.

Each decade, governments, financial institutions, engineering firms, and others complete studies of new projects. To date, for Africa alone, we have a substantial accumulation of projects of investment which are not only technologically feasible beyond doubt, but which would produce a substantial contribution to the national surplus of the nations and the regions in which they are intended to be placed.

Indeed, at this moment we have more sound projects to launch than the combined forces of the industrialized and developing nations have the present economic means to launch simultaneously.

Our practical task for development is that of selecting a combination from among those proven projects. We must allocate limited capital resources for development to a combination of selected projects which, taken together, will have the optimal effect in raising per capita output in the developing nations.

Up to that point, the policymaking and the administrative problem are well defined and easily understood among the relevant professionals. Limiting our attention to those governments, parties, and financial institutions which are opposed to a neo-Malthusian, Club of Rome, genocidal policy, the problem occurs the instant those groups' sound packages are turned over to the economic specialists. With some few exceptions, the economic specialists respond with elaborate explanations showing why the high-technology development of continents such as Africa is more or less impossible.

In point of fact, the arguments of such economic specialists are worse than mistaken. The variety of

equilibrium economics

economic theory they are employing is worse than incompetent. Unfortunately, graduates of Cambridge University, the London School of Economics, or like-minded training institutions infest the administrative infrastructure of governments, parties, banks, firms, and trade-union organizations even in the best of nations. Governments and others set forth to undertake an eminently sound program for the economic development of the so-called developing nations. The bureaucratic mice from Cambridge and London School of Economics gnaw at the roots of such programs. As a result of this gnawing at the roots, sound programs wither, and the abused and neglected developing nations slip closer to the abyss of biological catastrophes of famine and epidemic, combined with the effects of the social chaos fostered through such enmiseration.

I refer our attention on this point to the wartime policy-proposals of President Franklin D. Roosevelt. At the Atlantic and Casablanca meetings with Prime Minister Churchill, Roosevelt informed an understandably enraged Churchill that the United States was not going to fight a second world war for the purpose of once again saving the British Empire. Roosevelt added that under his policy for the postwar world, the United States would crush all efforts by the British and others to subject the international economy to "British 18th-century methods."

Unfortunately, Roosevelt died on the brink of peace in Europe. To put the matter in the kindest possible terms, President Harry S. Truman was no Franklin Roosevelt.

Excepting such cases as President Eisenhower's "Atoms for Peace" policy and the policies associated with Charles de Gaulle, the postwar Bretton Woods monetary system has been a cancerous revival of what Roosevelt rightly denounced as "British 18th-century methods." This Bretton Woods system has meant leaving former colonial nations to carry independently their accumulated debts—independent of significant assistance from the industrialized nations. This is the phenomenon which developing nations often describe as "neo-colonialism." On balance, since the death of President Roosevelt, the United States government has worked to perpetuate the old British Empire in thin disguises, and has done so by embracing what Roosevelt denounced as "British 18th-century methods."

The Cambridge school of economics, including such fellow-travelers as the Mont Pelerin Society and the liberals and radicals of the London School of Economics, is the formalization of precisely those "British 18th-century methods." Without rejecting those methods, without junking those miserable varieties of political economy, the New World Economic Order could not be brought into being.

For such reasons, it is a wishful delusion to speak of the development of regions such as Africa without committing ourselves to the replacement and eradication of those kinds of economic doctrine associated with Cambridge and the London School of Economics.

Since I began to gain public notice for my work on this matter, about five years ago, some important progress toward a New World Economic Order has been made.

During the spring of 1974, my associates and I proposed the immediate reorganization of the European Community's monetary structure into the form of what we termed then a "Golden Snake." We demanded the pricing of monetary gold at its price of production, not some fictitious gold valuation of the sort earlier used under Bretton Woods. We proposed that a gold-based EC currency bloc would be made economically feasible through economic cooperation agreements with the Comecon nations.

Happily, that 1974 demand of ours has been satisfied on the initiative of President Giscard d'Estaing and Chancellor Helmut Schmidt. The establishment of the European Monetary System, combined with new accords among Moscow, Paris, and Bonn, has established the indispensable cornerstone for the new, needed world monetary system.

During April 1975, I announced a further proposal at a press conference in Bonn. This proposal was later publicized in a series of reports under the title of *The International Development Bank*. The requirements of that further proposal are satisfied by the second aspect of the initiatives of President Giscard and Chancellor Schmidt, the European Monetary Fund.

If the members of the EMS place common reserves in a gold-based pool, that pool is readily converted into a new credit-banking facility. Churning liquidities held by central banks and other major institutions can be exchanged for purchase of low-interest, gold-denominated, long-term bonds. The liquidity so concentrated in the new banking facility can aggregate to a level of

"Today, if we choose the American System, we shall not only survive, but open up a half-century of unprecedented worldwide growth and prosperity."

hundreds of billions of dollars. This provides the basis for issuing low-interest, long-term credits for export of high-technology capital goods from the industrialized to developing nations.

I do not know to what extent my own proposals and those of my collaborators directly or indirectly influenced the shaping of the EMS and EMF institutions. Pope Paul VI's 1967 *Populorum Progressio*, the initiatives of President Charles de Gaulle, of the late Jacques Rueff, were already proposals in the same direction. The economic principles involved do not differ from the economic principles of Jean-Baptiste Colbert, Gottfried Wilhelm Leibniz, Alexander Hamilton, Henry C. Carey, and Friedrich List. The point is that there was a convergence between my own proposals and the designs accomplished by the various contributors to and architects of the EMS and EMF. To the lasting credit of President Giscard and some other leaders, we have made and are making some important progress away from the swamp of "British 18th-century methods."

If we assume that the European Monetary Fund will be put into operation quickly now, this step is excellent. It is an indispensable step if we are to avoid an otherwise certain world depression and almost certain thermonuclear war.

However, this step by itself is not yet adequate. One more ingredient must be added. We must rid our government and financial institutions of the pernicious influence of "British 18th-century methods." Without that additional measure, both the EMS and EMF must tend to fail—and the condition of Africa, among other developing regions, will then become hopeless.

This last problem I have attacked in a publication entitled *The Theory of the European Monetary Fund*, published last autumn. As part of the same effort, I directed a group of my close collaborators to create a computer model matching the specifications of the same published document. Such a computer model has been constructed. It has been tested using a data base of U.S. statistics from the 1968-1973 period, and the model tested has been proven to have approximately 100 percent reliability. The crucial test has been accomplished through using 1968-1973 data-based versions of the model to predict post-1973 developments. The computer model so developed has been named a "Riemannian Economic Model.". Copies of some of the published reports on this model have been made available to you here today.

This conference on the development of Africa is a most appropriate occasion for reporting some of the leading, indispensable functions the "Riemannian Economic Model" will have in ensuring competent projections and measurements of economic performance. This model enables us to replace the "British 18th-century methods" embedded in the computer models and other economic-accounting procedures heretofore generally in use.

To that purpose, I shall now summarize for you the following key points.

First, I shall locate myself as an economist directly in the tradition of what the great Marquis de Lafayette and others defined as the "American System." The best known economists of the "American System" are George Washington's Treasury Secretary, Alexander Hamilton, President Abraham Lincoln's economic advisor, Henry C. Carey, and the close collaborator of Lafayette, Germany's Friedrich List.

Second, I shall identify the gross incompetence of the system of National Income Accounting in official use in the United States today. By means of this illustration I shall leave no doubt in your minds of the rightness of the theory of Hamilton, Carey and List, or of the gross incompetence of the sort of economics advocated by both British liberals and the Mont Pelerin Society today.

Third, I shall turn your attention to the flaw of omission in the economic theories of Hamilton, Carey and List. I shall emphasize that what I have accomplished, relative to my leading predecessor-thinkers of the "American System," is to have employed the kind of relativistic physics associated with Bernhard Riemann and Georg Cantor to solve the problem of generating predictive economic models consistent with the fundamental principles of the "American System."

In this connection, I shall show why no competent administration of development of the developing nations is possible without replacement of British methods of political economy by the American System.

The presentation will bring into focus the point emphasized in the title of this presentation. In the conclusion, I shall turn your attention again to the special characteristics of the "Riemannian Economic Model," to show why any mathematical model or accounting system reducible to simultaneous linear equations is axiomatically incompetent to represent a developing economy. As a corollary point, I shall have shown you that the effort to administer an economy or world monetary system according to doctrines derived from Petty, Smith, Ricardo, Mill, Keynes, Schacht, von Mises, or von Hayek, must direct economies into relative stagnation and ultimate collapse.

I shall emphasize, in passing, that Karl Marx was wrong in his misguided effort to adduce the principles of industrial-capitalist development from the British model. Marx was correct, however, in showing that depressions, misery and ultimate collapse are intrinsic to societies which model their economies according to the doctrines of Smith and Ricardo. Today, if we choose the "American System," we shall not only survive, but open up a half-century of unprecedented world-wide growth and prosperity. If we tolerate the British model, we are doomed either to early nuclear war, world-wide biological catastrophe, or both.

1. Hamilton: the origins of political economy

To understand the "American System" economics of Hamilton, Carey and List adequately, we ought to trace the development of modern national economies from a comparison between Dante Alighieri's *De Monarchia* and the *Concordantia Catholica* of Cardinal Nicholas of Cusa. From the middle of that Dark Age following the defeat of the Hohenstaufen, to Europe's emergence into the Golden Rènaissance, the leading Augustinians and citybuilders of Europe had progressed to the notion of a world order based on national republics. Cusa's ecumenical proposals, beginning with his *Concordantia Catholica,* have an importance that is presently vastly underestimated in the emergence of the modern nation-state, and of national economies.

The first modern political economist was the great Byzantine Platonist and collaborator of Cosimo de Medici, Plethon. Reading Plethon's proposals for national economy today, we are properly filled with profound contempt for David Ricardo's *Principles* as well as the British productions of William Petty and Adam Smith. Relative to the great Plethon from the early 15th century, Ricardo, four centuries later, did not comprehend even the ABCs of national economy.

The first successful establishment of a modern nation-state and national economy was accomplished during the last half of the 15th century by France's magnificent Louis XI. Louis XI's achievements in France, intersecting Augustinian city-builder currents within Tudor England, contributed to the establishment of the second modern nation-state, England, during the early 16th century.

From that point onward, into the American Revolution, there was a philosophical and practical alliance between what became the Commonwealth Party in England and the Navarre-centered *politiques*, the Commonwealth Party of France. Jean-Baptiste Colbert is the interim culmination of this process in France of the post-1653 period.

The overthrow of the Commonwealth Party in Britain in 1660 was a terrible blow to the republican cause. However, the English Commonwealth Party provided for the future by its 17th century colonization of what was later to become the United States. Over the period 1766 through 1789, the figure of Benjamin Franklin was the focal point for alliance of the transatlantic Commonwealth Party with the networks of the heirs of Colbert and Leibniz throughout the continent of Europe.

Looking at the problems of the 18th century from Benjamin Franklin's Paris we observe the following. Eigthteenth century France was the most advanced and most rapidly developing industrial nation of that period—in contrast to relatively stagnating Britain. Nonetheless, parasitical forces among aristocratic serf-holders and Amsterdam-Geneva-linked rentier-finance prevented France from realizing its industrially based potential to become a true republic. As Lafayette's policy toward Louis XVI illustrates, the political defect of France was seen to be not the monarchy as such, but the grip of anti-industrialist oligarchical forces of countryside and rentier-finance on the monarchical government. The wrecking of French credit by the evil father of the evil Madame de Staël exemplifies the problem.

In the dedication of Franklin's transatlantic conspirators, the American Revolution was not simply an American internal affair nor a geopolitical matter of continental efforts at weakening the British monarchy's evil power. The new American Republic was intended to become the more or less perfected realization of the kind of republican order the heirs of Dante, Cusa, Colbert and Leibniz intended to bring into being throughout Europe most immediately.

Therefore, when we speak of the "American System" of political economy, we are not suggesting that the European networks centered around Lafayette proposed to imitate some recent concoction autochthonously sprung up in North America. Although it was the majority of American people who, principally, had made the revolution and established the young republic, the republic was based on political and economic principles of European design.

Whether or not they have been informed of such details, when nations of the developing sector today demand a New World Economic Order, they are demanding in fact the same policies the American revolutionaries demanded in adopting the U.S. Constitution. They are demanding the benefit of those policies which Lafayette and his allies knew and promoted under the name of the "American System."

It is an absurdity, a wild distortion of the bare facts of U.S. history, to regard the American Revolution merely as an internal conflict between British colonies and the British throne. That revolution was in fact a world-wide struggle between what we identify as the "American System" and what the misguided Karl Marx admires as the "British model."

A handful of brief illustrations are important here.

The successful assimilation of modern technology by Japan was rooted in the acceptance of Dutch humanist influences long before the Meiji Restoration of the 1860s. Long before the Meiji Restoration, a group of gifted persons in Japan dissected a corpse, satisfying themselves that European science was relatively sound, and Chinese culture backward and absurd on this and related points. In a like manner, the forces which launched a 19th century economic miracle in Japan under the Meiji Restoration drew on two sources. By way of historic connections to Neoplatonic Europe, connections to German republicans, Japan adopted the political economy of Friedrich List. With aid of a Meiji leader who apprenticed himself in the Lincoln administration, Japan took directly from the economics of Alexander Hamilton and Henry C. Carey.

List and Carey were not parallel developments. List was a part of an international conspiratorial network headed by Lafayette, and spent ten years in the United States, under the sponsorship of Lafayette, where List worked closely with Henry C. Carey and his father Mathew C. Carey. List presented his work to Europeans under the name "The American System." Hamilton, Carey, List and the great French political economists of the early 19th century represented in fact a community of collaborating scholars.

Although British subversion of leading institutions of the United States was a major problem throughout the 19th century, the essentials of the American System were deeply embedded in the republic. The forced industrialization of the nation under President Lincoln made the success of the American System irreversible—at least until the ominous reverses of the 1960s and 1970s. Similarly, the Meiji Restoration embedded the "American System" in the economy of Japan. The achievements of List and his collaborators have been organically embedded in Germany's Rhineland and Ruhr. It is the heritage of France's Hanotaux and Russia's Count Sergei Witte, a heritage based in the "American System," which still to this day serves as the institutional basis of reference for the Gaullist policy toward the European continent.

Today, it is rightly the model of the young United States' republic, the model of Japan's economic miracles, and the model of German technology—of the Ruhr and 19th century Göttingen, which corresponds with the need to create a New World Economic Order.

Hamilton's economics as such

The kernel of the economics of the "American System" was first elaborated by George Washington's Treasury Secretary, Alexander Hamilton. During the period 1789-1791 Hamilton drafted a collection of policy outlines on banking, credit and economic policies. Those reports by Hamilton bring together most of the essential, distinguishing features of the "American System." The most profound and important among Hamilton's writings is his 1791 *Report on the Subject of Manufactures*. In this report, Hamilton systematically shows to be absurd those notions of political economy embodied in Adam Smith's *Wealth of Nations*. Hamilton refuted in advance the absurdities of David Ricardo's *Principles*, as well as John Stuart Mill, Marshall, John Maynard Keynes, Hjalmar Schacht, and also the liberal and Mont Pelerin Society outgrowths of the British school.

In opposition to the physiocrats, including Smith, Hamilton discredited totally the British doctrine of rent, and also discredited in advance Ricardo's foolish notion of "average necessary labor-time" as the determinant of economic value.

Hamilton's factual basis for this proof was restated later by Mathew Carey, by Henry C. Carey, by Friedrich List, and by key French thinkers of the early nineteenth century. Although later thinkers have had the advantage of a broader range of facts than Hamilton commanded, Hamilton's own devastating refutation of the British doctrine of rent is so thorough, and presented in such comprehensible form, that any person who has not mastered this and come to essential agreement with it is professionally unqualified to speak on political economy.

The source of wealth is not the "bounty of nature." Each mode of productive technology defines a different spectrum of natural resources than earlier and later modes of technology. Petroleum, at a premium today, will be a petrochemical source of diminishing importance as fusion energy processes emerge into general usage during the next century. Old resources are relatively finite, and must be replaced by new kinds of resources through development of more advanced technologies.

Only a British rentier or a feudal landlord or usurer could repeat the nonsensical argument that land has a natural fertility for agricultural use. It is productive, ingenious farmers whose improvements in land make that land fertile and improve its fertility.

In the U.S. state of California there is a piece of former desert, called today the "Imperial Valley," which is among the richest agricultural land in the world. What physiocratic imbecile could argue that the value, the fecundity of this land is a product of the "bounty of nature?"

Continuing the line of thought outlined by Hamilton, during the next two decades of fission energy development, fission energy plants will add between 7 and 10 thousand gigawatts of capacity to the world's fixed-plant energy supplies. During this phase, we shall transform the arid Sahel into the rich breadbasket of Africa, using the principles which turned California's desert into the basis for the "Imperial Valley." During

"The source of wealth is not the 'bounty of nature' ... it is the development of the productive powers of labor."

the last decade of this century, fusion energy will become commercially applicable on a broad scale. As continued perfection of fusion energy advances, we shall have the energy at sufficiently low social cost to transform the Sahara and Gobi desert into gardens for human habitation.

One can believe in the unchanged fecundity of land only in a society which refuses to meet its obligation to create the fecundity of the soil.

The second, connected point proven by Hamilton is more sophisticated, more fundamental, more important. Let us look at this point in terms of its refutation of the absurd belief that the "average necessary labor-time" of production determines economic value.

Let us suppose we turn back the clock of history to our ancestor hominids of the late Pleistocene age. Could we maintain a world population of even a hundred million through the forms of food gathering and primitive production employed by old-stone-age ancestors? What is the value today of the average labor time of persons at such levels of culture? It is less than zero. Stone-age man could not maintain a world population of a hundred billion persons even with an 18-hour labor-intensive day. It is not the time of labor that determines value, nor the price paid for a day's labor. It is the *quality* of labor that determines the value, the level of technology represented by the successive advancements in culture of man from the Pleistocene to the present.

What then, is the source of economic value? What is there reflected in the potentialities of a modern labor force which enables us to maintain a world population of about 4 billion today, and will enable us to maintain an improved standard of existence for about 6 billion persons 20 years ahead? It is nothing but a secular process of progress in developing the productive powers of labor.

This is the essential point of axiomatic difference between the American System and our adversary, the British system. That point of essential difference is Hamilton's principle, that the *sole ultimate source of all wealth is the development of the productive powers of labor.*

As a corrollary principle, Hamilton proves that the development of the productive powers of labor requires the mediation of increased savings embodied as capital. It is through "artificial labor," the use of machines to employ energy above and beyond that of the human musculature, that continued development of productive powers of labor is to be secured.

In general, Hamilton's approach was consistent with that of Jean-Baptiste Colbert. The development of an industrial republic requires that the state organize the credit required for commerce and investment, and that the state act to create a protective environment around those ventures which contribute more advanced productive technologies to the national labor force as a whole.

The British doctrine of "free trade," or the modern name for the same thing, "the free-market economy," is an historical absurdity and an economic fraud. Historically, industrial capitalist development occurred through the directing role of the state. This was the case for the France of Louis XI, for Tudor England, for France from 1653 through 1814, and for the young American republic. It was the case for Meiji Japan, and the case in the effects of List's customs union for Germany. Never in the course of modern economic history in any part of the world has private capitalist investment by itself succeeded in developing a healthy capitalist economy.

What private capitalist venture does accomplish is to enable different technological and entrepreneurial ingenuities to compete in such a way that those enterprises embodying the best combinations of technology and management will tend to predominate, and new, more progressive firms will nip threateningly at the heels of those firms whose managements tend to become lazy in respect of technology, and parasitical in respect of their use of profit-incomes. This system of competition functions only on condition that the state creates a system of credit and taxation through which progressive ventures are aided to prosper at the relative expense of the more backward and parasitical capitals.

On this point, one may usefully refer to the observation of Mathew Carey.

During the period of 1815-1818, the United States committed the folly of adopting the British doctrine of "free trade" as U.S. governmental policy. The result of the ill-fated embrace of "free-market economy" principales was a disastrous depression. As a result of that experience, the United States abandoned "free trade" policies, and returned to the policies of Hamilton. The 1818-1828 period of "dirigism" was one of prosperity.

Commenting on this in 1818, Mathew Carey compared the case of Portugal. Carey showed how Portugal's submission to the British doctrine of "free trade" had ruined that nation's credit and economy. We might add, comparing the economies of Portugal and the U.S. over the past two centuries, that it was Portugal's

"As long as an industrial-capitalist system employs such dirigist methods, no depressions are possible."

persistence in "free trade" practices which brought that once-proud nation down to its present relative semi-backward condition. Carey showed exactly how "free trade" was destroying the U.S. economy during the 1815-1818 period.

A related experience afflicted the United States under Presidents Andrew Jackson and Martin Van Buren. At the time of Jackson's election—one must add, elected with aid of a massive vote fraud—in 1828, the United States had the best credit of any nation of the world, and was a technological leader, more advanced than Britain at that time. Under Jackson's "free trade" policies, the credit of the United States was ruined, and the nation plunged into the disastrous panic and depression of the period beginning 1837. The United States did not recover significantly from Jackson's and Van Buren's "free trade" follies until Lincoln's industrialization drive.

A most relevant illustration is given by the case of the 1930s depression.

In 1940, the United States began a war-production mobilization. At first, the mobilization was stalled by the effects of accumulated obsolescence and decay in productive capital, and by the labor force's loss of much of the skill-level which that labor force had possessed in 1928-1929. Nonetheless, by 1942, a war-production boom was underway; the United States went through super-employment of its labor force and cranked out a production of goods which staggered the imagination of the world.

Why, then, did the United States permit itself to undergo ten years of hideous economic depression? Granted, ammunition is not generally eatable, and artillery and military aircraft are not very useful as chemical plants or machine-tools. However, if, instead of war-goods, the United States of 1929, 1934, or 1936 had used war-production mobilization methods for producing masses of capital goods, the depression would have ended. Moreover, since capital goods are recoverable values through production—where military goods are not—any long-term debt incurred for such capital-goods production would have represented a non-inflationary, negotiable asset.

As long as an industrial-capitalist system employs such dirigist methods, no depressions are possible. The reason the United States remained in a depression throughout the 1930s is that both President Hoover and President Roosevelt refused until 1940 to break with the British policies of "free trade."

The Hamiltonian new world economic order

The illustration I have just given I have emphasized because of its direct bearing on the New World Economic Order. The methods Roosevelt used for 1940-1945 war-mobilization in the United States are a model of reference for the methods by which I propose to make the New World Economic Order a reality.

Contrary to official U.S. government statistics, the U.S. economy as a whole is currently operating at a net loss. The statistical reports of economic growth and profitability are largely fictitious; they are based on including within Value Added items revenues which involve nonproductive or even outrightly wasteful purchases. The agricultural and industrial sectors of the U.S. economy, in particular, are in a cannibalistic phase, where a shrinking capacity is maintained by "triaging" part of output-capacity as a whole.

Although the U.S. could secure export contracts for capital goods increasing the level of exports by about \$100 billion annually, the U.S. economy has shrunk since 1966-1967 to the point that prompt delivery on such increased volumes of exports is presently doubtful. I emphasize the figure of \$100 billion because that is the approximate level of increased annual exports of capital goods the U.S. must contribute to launching the New World Economic Order during the course of the immediate four years ahead.

Therefore, the problem of bringing the U.S. economy to the point it can deliver an additional \$100 billion of capital-goods exports annually is a problem very much like the war-mobilization problem Roosevelt confronted in 1940.

On condition that the European Monetary Fund is implemented in the way I have indicated earlier, and on condition that the United States and Japan are brought into support of the EMF, that will establish a new world monetary system, replacing the bankrupt and cancerous relics of the Bretton woods System— the IMF, World Bank, and London financial market. This new system, being established on a true gold-reserve basis, can generate hundreds of billions of dollars-equivalent annually, provided that the credit issued is for sound projects, and that the credit is issued primarily for world commerce either in capital goods or in commodities circulated in payment against capital-goods purchases. In other words, it is a worldwide, peaceful equivalent of a war economy.

On that basis, anticipating nuclear-energy plants to be a large component of total increased capital goods exports, we are projecting levels of added world commerce in capital goods in the order of between two and three hundred billion dollars-equivalents annually, as soon as production levels can be cranked up to meet such requirements.

East-West economic cooperation will be an essential part of this. For various reasons, the Comecon nations are not suited to become a significant part of the world division of labor in consumer products. Therefore, unless the Soviet Union, for example, were to meet its purchase obligations with a combination of gold bullion and primary commodities, there would appear to be important difficulties in the way of adequate expansion of East-West economic cooperation. However, the Comecon economies, especially the Soviet economy, have excellent potentials for producing high-quality capital goods for Third World use. Thus, the Comecon can increase its purchase of imported capital goods for its own internal development against the proceeds from supplying other capital goods exports for development of Third World nations.

Admittedly, this effort depends upon the subordination of old Third World debt to the longterm credits of high-technology development. With a new, gold-based monetary system replacing the cancerous IMF, the suitable reorganization of old debt-structures can be accomplished without causing dislocations in the internal banking systems of industrialized nations.

This effort is also to be understood by comparing the United States and the British Empire over the term of the 19th century. It was the British Empire which had the larger territory, the greater mass of natural resources, and the larger population. Yet, compare the rate of per-capita growth of wealth of the two entities.

To study the matter, it is adequate to compare the effects of the Hamiltonian development of Meiji Restoration Japan with the misery of India during the latter part of that century. Although India today has a low average annual output and income per-capita, it also represents the nation with the third-largest complement of scientists and engineers in the world. This present contrast reflects the earlier contrast between India's advanced culture and its misery during the 19th-century. By looking at 19th-century India in this way, and applying the comparable cases of Japan's development and U.S. assimilation of illiterate immigrants during the last decades of that century, it is easily shown that India could have achieved the per capita prosperity of today's Japan, but for India's participation in the British Empire's "free trade" system.

The use of "free trade" to impose economic backwardness and misery upon nations is argued in Adam Smith's *Wealth of Nations*. Although most of Smith's Wealth of Nations is devoted to lying representations of the work and policies of Jean-Baptiste Colbert, Smith is accurate insofar as he shows the necessary connection between "free trade" and the conditions Britain imposed on the victims of its colonial rule.

If those victimized regions of the world had lived under the hegemony of the "American System" rather than the British system, the hideous condition of much of the Third World would not exist to be remedied today.

2. U.S. National Income Accounting

Apart from the spread of the toxic doctrines of Smith, Marshall, Keynes, and von Mises in U.S. universities and corporate boardrooms, the chief subjective cause for the present decay of the U.S. dollar and economy is the use and acceptance of the National Income Accounting system employed by the Department of Commerce, Federal Reserve System, and by most influential institutions of the private sector. The absurdity of the National Income Accounting system is most easily demonstrated beyond any margin for objections.

If the United States were merely to legalize the present level of domestic traffic in illegal narcotics and related, illegal mind-altering substances, the reported Gross National Product of the United States would be increased by more than $100 billion annually. A similar kind of result would be accomplished by legalizing illegal gambling, and by absorbing large portions of the unemployed as employees of an expanded number of gambling establishments. If one were not satisfied with this amount of increase in the National Product, the legalization of burglary and armed robbery would enlarge the GNP.

It may be recalled that John Maynard Keynes once argued that an economy could be stimulated by hiring unemployed persons to dig and refill holes in the ground. If all the labor force in the United States were discharged from productive employment, and employed by the government in digging and refilling holes in the ground, the payment of an adequate hourly wage for this employment would suffice to increase the GNP over the levels existing when production was still functioning.

This imbecility of the National Income Accounting system is the chief reason that the past 12 years decline of the U.S. economy has been a period which GNP figures report to be one of more or less successful continuation of economic growth.

Although Hapsburg Vienna's so-called economists were influential in the design of that GNP system, the axiomatic principles were consistently British. The mere fact that any person could take Keynes seriously, after Keynes's observation on the digging and refilling of holes, is adequate evidence that in matters of political economy, at least, such an admirer of Keynes must be either a moron or a certifiable lunatic.

It is relevant that despite Karl Marx's self-deception on this point, the Reverend Thomas Malthus was a collaborator of David Ricardo. The fact that Marx is self-contradictory in his own definition of "productive" in his *Capital* is not inconsistent with Marx unjustified praise for the relative "scientific" merits of Smith and Ricardo. In Volume I of *Capital*, Marx gives a wrong definition for "productive"; in a location in *Theories of Surplus Value*, Marx's distinction between *productive* and *nonproductive* is close to being correct. It is important to stress such observations concerning Marx when dealing with the Third World, since the London School of Economics representation of Marxian economics has been promoted among Third World intellectuals, including Third World leaders who otherwise have a sensible view of economic development.

In the case of Thomas Malthus, Malthus's refusal to distinguish between productive and nonproductive forms of consumption is only more luridly obvious than in the writings of Smith, Ricardo, Marshall, Mill and the professedly Malthusian Keynes. Malthus is only more shameless than many other British political economists on this point.

In the British System, especially the "utilitarianism" of Mill and Mill's successors, the consumption of a commodity or service is an end in itself. The fact that someone is induced to purchase or otherwise consume a paid commodity-production or service is wrongly adopted as the "elementary fact" of the economic process. So, Malthus proposed that the purpose of production of profit was to sustain an army of nonproductive oligarchical parasites—such as himself.

The proper distinction between productive and nonproductive consumption is readily made. The case of capital consumption is most easily accepted on this point. If a firm does not employ its plant, machinery, materials and related capital in production of new outputs, the capital purchased goes to waste. The same is true of labor. If households are nourished, clothed, educated, housed, and so forth, but the labor-force represented by those households is not productively employed in production of goods, that portion of consumption has no direct economic value to the economy as an economy.

Consumption is not the final phase of the productionchain. Consumption, to the extent that it represents economic value, is the connecting link between what has been produced and new production. Growth signifies that the result of consumption of old production is more production than was previously produced.

On condition that we correct and reinterpret Marx's economic categories from the standpoint of the American System, a rigorous definition of "productive" is obtained through two steps of successive approximation. We give the first approximation at this point, and then develop the final approximation under the next subheading.

To analyze an economy, we must take the population of that national-economy as a whole. That is to say, we must not fall into the foolish practice of assessing an economy as a mere aggregation, one by one, of its component parts. The first step of analysis is to apportion the households of the total population into two sectors. One part is households of productive labor, meaning households of persons who are modally operatives in industry, construction, agriculture and such tangible infrastructure as transportation. The other portion of households is "non-productive."

From the productive sector of the population we define a total productive labor force. The total output of this productive labor force is analyzed in categories roughly corresponding to Marx's. These are C for cost of reproduction and used-up material preconditions of production, V for the cost of all the households representing productive labor, and S for the portion of tangible-product output remaining after deducing C and V.

The fact that the second group of households falls under "nonproductive" does not mean axiomatically that they are not usefully engaged. It signifies merely that their relationship to the productive process *does not involve any direct physical changes in nature.* This category of "non-productives" includes socially indispensable services such as eduction, administration, science and engineering, medical hygienic services, and so forth. It includes Keynesian economists and other parasites, of course.

The portion of the total product consumed by the nonproductive households and by activities related to nonproductive function is designated by the symbol D.

D is paid for from the surplus product (S). This gives us the net of (S - D) as net surplus product, which we identify otherwise by the symbol S′.

It is the ratio of net surplus product to social cost of product, the social "rate of profit" $S'/(C + V)$ which occupies the central place in a proper study of an economy. It is that production and consumption which either at least maintains or, preferably, increases the value of this, while also increasing the scale of production, which we define as the productive relationship.

The social rate of profit, $S'/(C + V)$, does implicitly define the relationship between necessary forms of services and the economy's productive base. That is, the total value of such services must not rise faster than permits a rising value of the social rate of profit $S'/(C + V)$.

As my collaborators, Parpart, Bardwell, Goldman

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et al. have demonstrated, rearranging available U.S. official statistics to fit the social rate of profit $S'/(C + V)$ prescription produces a suitable portrayal of changes in the postwar U.S. economy, a portrayal which correlates directly with the way in which the inflationary decay of that economy has in fact occurred.

That is to be called wealth which is tangible wealth, and which, in its adopted mode of consumption, leads to production of new such wealth at an increased rate.

3. Correcting the flaw of omission in Hamilton et al.

The continuing formal flaw in the quantitative economic practice of the American system's theory has been that it could not go further than the implications of the first-approximation of "productive" just identified.

The American System correctly prescribes that ratios of the form of the social rate of profit $S'/(C + V)$ define the productive relations of an economy. Second, the American System has correctly insisted that it is the continued advancement of productive technologies, toward higher rates of per-capita output, which is the real, deeper criterion of a healthy economy.

Therefore, the required quantitative model of an economy is one in which such technological progress is represented as the driving force of the economy. Using mathematical terms, technological progress is the *invariant* of the economic process; it is not a dependent variable of a system of linear equations, nor is it an exogenous factor to be introduced or omitted by choice.

If we examine this special kind of invariant we must associate with technological progress against the backdrop of modern relativistic physics, the physics specialists should quickly recognize that this is a special kind of invariance, and corresponds to a very specific kind of physical space. That is the kind of physical space identified by Bernhard Riemann in the 1854 habilitation dissertation.

It is for related reasons that the computer model reported has been named a "Riemannian Economic Model."

Although all of Riemann's principal contributions to physics were in fact derived from the conception presented in his 1854 paper on hypothesis, so far to date the general appreciation of Riemannian physics among specialists has not taken that connection systematically into account. The kind of invariance which Riemann's 1854 paper implies is not an ordinary sort of invariance, but what I have, appropriately, defined as transinvariance.

I confess that from the standpoint of Maxwell-oriented physics, the notion of transinvariance embedded in Riemann's 1854 dissertation is shocking almost to the point of incomprehensibility. Indeed, Maxwell, Rayleigh, Bertrand Russell and other spokesmen for the Cambridge school of mathematics have sometimes been even violent in expressing their fury against Riemann's habilitation dissertation, or otherwise against crucial aspects of the physics Riemann derived directly from that same methodology.

I, too, wrestled with the problem of the dissertation, until a study of Georg Cantor's development of the notion of transfinites enabled me to comprehend Riemann's conception. That insight came back over a quarter-century ago, in 1952, and it was between six and eight years later before I was able to elaborate this breakthrough into a form fully appropriate for economics. Although these conceptions were embedded in the instruction in economics I gave beginning 1966, it was not until certain among my associates applied this economics heuristically to crucial problems of so-called anomalies in recent years' plasma research that they, too, were as fully convinced as I of the fact that the 1854 dissertation represented a fundamental breakthrough in the understanding of the lawful ordering of the universe. It was because those among my associates who are otherwise specialists in plasma physics were able to see such a connection, that it became possible to develop a suitable computer model for the kind of economic analysis with which I have been associated during the past two-and-a-half decades.

Therefore, taking such matters into account, one must not be tempted to blame Hamilton, Carey, List and so forth for failing to solve the problem of predictive economic models.

Although the lack of such Riemannian approaches was a defect in the quantitative methodology of the American System economists, this defect does not place those economists at a disadvantage relative to the reductionist economists of the British school. Rather, without an adequate, Riemannian approach to economic models, the economist of the American System school is obliged to approximate the economy defectively by using methods which may resemble those of the best variants of the British school.

To restate the same point: the best kinds of economic models employed up to this time, especially those used for computer simulations, employ systems of linear equations. The input-output models associated with the work of Wassily Leontieff are examples of this. Any model fitting such specifications is of the form otherwise termed "equilibrium model."

The moment we assume that an economic process can be simulated by a computerized "equilibrium model," we have, wittingly or not, introduced a monstrous sort of axiomatic assumption to the analysis. Overlooking the deliberate falsifications included in the computer model of the Club of Rome's Meadows and Forrester, Meadows and Forrester would have produced analogous results even had they not included fraud in their construction. *An "equilibrium model" of an economy is axiomatically a neo-Malthusian model.*

If the proponent of one of these sort of models were to object to our observation, arguing that practical forms of mathematical applications demand such assumptions, our reply must be that such varieties of mathematics are axiomatically incompetent to represent an actual economy. Or, to be more exact, any policies derived from such a model must have the worst possible effects on the overall course of economic development.

In real economies, it is true that the relative finiteness of the primary resources associated with any unimproved technology means either that such an economy must tend to exhaust such resources, or, at best, to secure these only at a rising marginal cost. If that Malthusian assumption had been characteristic for the human species' existence, the human species would amount to a population of about one million worldwide today, and we should, like our remote ancestors, have failed to progress to the technology of the paleolithic scraper. Unless the human species had been characterized by progress in technology, the human species today would live in a condition comparable to that of an intelligent variety of baboon.

It is true that some branches of the human population have, over the past thousands of years, either failed to progress technologically, or, like the 15th-century American Indians, had degenerated to their found condition from a civilized into a mean, savage condition. However, the increase of the human population over the past three millenia, since Ionian Greece rose out of the preceding Aegean dark age, has been accomplished chiefly by those branches of the human family which have progressed technologically, or as a result of the influence of more-advanced cultures on less-advanced.

By adducing those impulses of technological progress associated with the rise of successful forms of human culture, we are able to construct an approximate time-series, representing successive technological advances in humanity's mode of production and social life. Examining this series, we note that the most obvious parameter of technological progress is an increase in the per-capita density of the number of usable calories of throughput. Advances in agriculture place control of most useful plant-life at society's disposal per capita. Animal husbandry places more animal—and plant—energy at man's per capita disposal. Improved tools have similar effects. Development of sources of so-called "artificial energy" increases in relative importance as we come historically into civilized forms of existence.

This secular tendency for increase in the per-capita energy-density of human production means an increase in the "reducing power" of socieites. Limited old resources are exploited at a lowered social cost; new kinds of resources are introduced.

When sections of mankind have, at any point, resorted to "energy conservation," societies have collapsed; biological catastrophes of famine, epidemic and desertification have plunged such a society back toward savagery. It is to be emphasized that various now-dead societies did choose the Malthusian, "energy-conservation" policy, and did slide into savagery or even oblivion.

At first, what we have considered on this immediate point concerning energy might be misinterpreted to imply that new, external sources of energy are brought into societies, that this is the way in which societies progress. It is a rule that setting fire to factories may help insured entrepreneurs out of financial embarrassment; this method does not increase the productivity of the enflamed factory.

There is something more profound than mere calories of energy involved in effecting the successful branches of human cultural development. *The source of the new energy is the creative-mental potentialities of the human mind.* In those courses of development of technologies which we comprehend coherently as progress in scientific knowledge, man increases his knowledgeable, willful mastery of the lawful organization of our universe.

This advancement in knowledgeable practice is not limited to increasing man's power to loot nature. As the case of agriculture illustrates most dramatically, man is empowered to increase the richness of man-altered nature vastly beyond what might be termed its

"John Maynard Keynes once argued that an economy could be stimulated by hiring unemployed persons to dig and refill holes in the ground."

natural state.

From this standpoint, we ought to be able to identify quickly the problems reflected in British schools of political economy.

The abstract man represented in the equations of the computer-models of Leontieff and so forth is not a human being. Leontieff's man is a mere beast, with fixed ranges of behavior, like a laboring ox or a talking parrot. The computer models so constructed degrade human economy to an analogue of an ecological equilibrium-model involving grass, rabbits and foxes.

Man is not a beast. He is not grass, a rabbit, or a fox, nor is he permissibly degraded to work in fields or factories like an ox, nor in administrative and academic positions as a mere parrot. The Cambridge-style equilibrium-model degrades man to ox-likeness, proving that in a society in which people think like existentialist oxen, that society will soon collapse in an ecological crisis—and will soon pass into the academic mercies of future paleontologists.

Let us turn back now to Hamilton's principle. The only source of wealth of nations is the development of the productive powers of labor. The Cambridge model merely proves Hamilton to be correct, if in an entirely negative way. Mankind can not survive for long, if ever he permits his economy to be managed according to the prescriptions of the Cambridge school of political economy. That which is properly termed wealth is only that which violates the axiomatic principles of the Cambridge school.

The notion of wealth is not properly limited to the idea of that consumption which facilitates replacement of what is consumed by a society. The notion of wealth is properly restricted to those aspects of consumption which mediate effective technological progress—which effect increases in the value of the social rate of profit $(S'/C + V)$.

It is not the *object* of wealth in itself that constitutes true wealth. Objects represent wealth only to the extent that their consumption mediates the advancement of the technological potentials of both man and his means of production.

In other words, the *quantum* we must measure if we are to analyze an economy competently is not a scalar magnitude. It is not numbers of objects, prices, hours of labor, or anything of that sort. The crucial parameter is the quantum of technological progress mediated through the production and consumption of useful objects. Although the notion of wealth is properly associated with such objects, that association exists only because those objects have some ephemeral but necessary connection to the mediation of a quantum of technological progress.

The Cambridge school proves perversely that we are correct. If man does not progress technologically, societies must die as horribly as the neo-Malthusian implications of British economic theory and British-inspired computer models imply. One may measure anything one chooses in a society. The thing worth measuring in an economy is that unit of action which correlates with the economy's power to survive. The only unit of action which satisfies that latter specification is a quantum of technological progress.

I do not elaborate here the formal-physics issues involved. I refer specialists' attention to the other publications on the Riemannian Model which have been made available for you here today. It is sufficient to report that making a quantum of technological progress the primary determinant of an economic model is identical conceptually with the notion of the kind of relativistic space identified by Riemann's cited 1854 dissertation. No "equilibrium model" could conceivably approximate any actual form of economy but the economy of a society deliberately engaged in destroying itself.

Since my collaborators and I have now presented you with the kind of computer model needed, I am entitled to propose that you should discard entirely the accounting systems, the economics texts, and the algebraic constructions heretofore generally used by governments, financial institutions and universities. You no longer require such dangerous rubbish. I now place into your hands a body of economic science which works.

Using the economy as a club

Two weeks ago, the Carter administration's inflation czar Alfred Kahn stood before the nation's press and pronounced a new, modified version of the wage-price guideline policy. The plan, said Kahn, had been "liberalized" to take into account rampant inflation. Instead of the old 7 percent standard, the new program would allow for 15 percent wage and benefit increases over two years.

His remarks were greeted with justified skepticism. The old guidelines had been mostly ignored, the government's powers to enforce them were in doubt and seldom used, and with inflation running at upwards of 15 percent, surely no one would pay attention to this "modified" austerity program.

Kahn, who often says exactly what he means, told the reporters that they didn't understand the program. With the economy entering a recession, said Kahn, it is *the poor shape of the economy itself* that will hold down wage settlements by forcing companies to take tougher bargaining positions.

Kahn's statement is the first public admission by an administration spokesman that the government fully intends to use the economic collapse as a weapon to knock down wage increases.

Officials within Kahn's austerity-management bureaucracy, say the policy is already "operative" and "working quite well." Management, they state, has started adopting a get-tough attitude. "It's like they are telling labor 'look we got problems, so we can't pay what you expected,' " said a Kahn aide.

Such aides also report that for many companies poor sales have created backlogs of inventories; strikes are viewed as a way to cut costs and live off the backlog.

The Kahn people say that much of this is going on quietly, in small contract negotiations which are not getting the publicity.

It is clear that "collapse bargaining" is operative in the two key labor management confrontations:

The two electrical workers unions, with some 37,000 members, have been on strike against Westinghouse for the last seven weeks. Westinghouse has refused to sign the pattern agreement reached earlier in the summer with General Electric and is instead demanding a major "give back"—the changeover of the company's fully paid pension system to a contributory plan. Westinghouse is sitting on inventories of its major products and is prepared to hold out—even if the strike causes it to lose some customers to the competition. At this moment mediators report no progress in the negotiations.

In the auto negotiations, now less than a month away from a potential strike, General Motors and Ford in particular have seized Kahn's economic club to try to beat down contract demands of the United Auto Workers. (Chrysler (see ECONOMICS) has been ruled out as a strike target; it has asked for special treatment from the UAW and has been assured that it will get some.) If the industry had been booming like this time last year, GM and Ford would likely want to reach a quick settlement to reap the profits from new car sales. But the Carter administration's oil hoax has gutted the new car market; sales figures are plummeting and an inventory glut fills showrooms. GM, in particular, is in a good position to ride out a strike and, according to sources close to the negotiations, is refusing to "give an inch" on the contract. On or about the Sept. 15 contract expiration date, the UAW is expected to announce that GM will be this year's strike target.

While Kahn states that a recession-dominated labor market is the "ultimate" weapon in the austerity arsenal, his aides indicate that other things are in the works. This initial phase of their plan will cause strikes and dislocation. Wait until after the auto strike, said a Kahn aide. The strike will soften everybody up for the next stage, some form of real controls program. Kahn's people are looking into such novel ideas as a form of "productivity indexing" which would link wage increases to rises in what the Department of Labor calls productivity. This would be coupled to a system of price controls. And even with this, inflation will be in double digits, economic activity slow, and unemployment high.

In the meantime, Genghis Kahn will swing his economic club.

He may be candid, but is he sane?

—L. Wolfe and M. Moriarty

FACTS BEHIND TERRORISM

'Long hot autumn' planned for U.S.A.

Law enforcement officials should be alert to potentially violent racial conflict in the coming weeks—and it won't be "spontaneous." The financial and intelligence elites centered around the New York Council on Foreign Relations have been preparing for widespread racial confrontations in the U.S. by early autumn—just like the 1960s confrontations in which Cyrus Vance played a major role. The Justice Department's Office of Special Investigations and Civil Rights Divisions, the Anti-Defamation League of B'nai B'rith and the Communist Party U.S.A. function as the CFR's chief riot provocateurs.

The Kennedy-dominated Civil Rights Section of the Department of Justice has announced an unprecedented civil rights suit against Philadelphia Mayor Frank Rizzo and that city's entire police department—leveling sweeping charges of broad-based brutality by Philadelphia police against black and Latin residents. While no bill of particulars was included in the suit, our local sources confirm that the principle incident around which the action will be framed was last year's shootout between Philadelphia police and the terrorist cult MOVE. One police officer was killed when the MOVE members opened fire with automatic weapons as the officers attempted to enforce an order evicting MOVE cultists from their West Philadelphia safehouse. The MOVE cult, which included at least one confirmed Justice Department provocateur-informant implicated in the 1969 murder of Fred Hampton in Chicago, was created by the University of Pennsylvania's Wharton School and the American Friends Service Committee. AFSC was the initiating group behind the "anti-police brutality" campaign in Philadelphia.

A second incident centered around U.S. United Nations Ambassador Andrew Young's resignation. Within hours, black counterinsurgent Rev. Jesse Jackson issued a highly inflammatory, well-publicized statement proclaiming that relations between the black and Jewish communities are worse than at any point in the past 25 years. At the same time, Australian Rupert Murdoch's *New York Post* has carried inflammatory articles implying that Young was the victim of a Jewish plot, and cross burnings have occurred on the lawns of black-owned homes in the New York region.

Last year, *EIR* learned that one of the top operatives of the Mossad in the United States had boasted to intimates that he would make Andrew Young a U.S. Senator by 1980. Was Young's past week's performance a downpayment on his Senate seat?

These developments indicate that the Council on Foreign Relations' preparation of the riot apparatus is well underway.

• In May, the National Black United Fund, an amalgam of black counterinsurgents organized by CFR official J. Irwin Miller, held a planning conference in Boston addressed by many of the leading Institute for Policy Studies agents who figured prominently in the riots of the 1960s, Tom Hayden, Marcus Raskin and CPUSA associates of Angela Davis. Simultaneously, a subsidiary group, the Black United Front, was launched—drawing in some of the more prominent "street level" provocateurs, including Robert Williams, Ron Karenga and Imamu Baraka. This Front has been involved in a series of armed confrontations with the Ku Klux Klan and other white racist groups in the South throughout the summer. As in the 1960s, it has recently been confirmed that these KKK units are heavily infiltrated by agent provocateurs employed by the B'nai B'rith ADL.

• In the past month, the Communist Party U.S.A. has received a heavy infusion of funds from a variety of sources including circles aound Zionist right-wing social democrat David Dubinsky (former head of the International Ladies' Garment Workers Union) to conduct a series of highly visible demonstrations in the Detroit area. These mobilizations converge, on the late August-early September conjuncture of the CPUSA's national convention in Detroit and the anticipated UAW strike against General Motors and the threatened shutdown of Chrysler Motors. Such a blanket shutdown of the auto industry would be the prime opportunity for CPUSA and related provocateur networks to trigger a riot in the Motor City.

In Detroit, all of the Zionist and left-radical thug groups are consolidated into one umbrella organization—the Anti-Nazi Coalition. The headquarters of the Coalition are in the offices of the Jewish Community Council, a Zionist agency whose chairman, John Shepherd, in the past month has been named as the Michigan liaison to the Justice Department's Office of Special Investigations, the elite political "plumbers unit" we reported on in last week's issue.

—*Jeffrey Steinberg*

WORLD TRADE REVIEW

New Trade Deals

PRINCIPALS	PROJECT/NATURE OF DEAL	COST	FINANCING	STATUS
Japan from Mexico	Japan will buy 36.5 mn. barrels of crude oil over 10-year period starting 1980, including $500 mn. Japanese government credit line to Mexico	$8.2 bn		Joint government announcement
Saudi Arabia from Sweden and Netherlands	Saudi Arabian Ministry of Post and Telecommunications orders computer-controlled telephone system expansion from L. M. Ericsson and N. V. Philips. This is the largest single order in the history of the telecommunications industry.	$800 mn		winning bid announced
Turkey from Sweden	ASEA-Atom may supply Turkey with its first nuclear plant to be built at Akkuyn	$500 mn	main issue under discussion	negotiations reopened
Iran/U.S.S.R.	Soviet aid to expand Isfahan steel mill from 550,000 tons/yr to 2.15 mn tons/yr in return for Iranian gas through IGAT-1 pipeline	$370 mn	NAv	Announcement by National Iranian Steel Company
Taiwan from U.S., Switzerland	Taipower (Taiwan state-owned utility) buys two power plant units from GE for $90 mn, another from Brown Boveri Corp. for $40 mn. Balance of deals placed with nine New York State firms.	$179 mn	NAv	Contracts signed by official Taiwanese procurement mission
Australia from Japan	Coal liquefaction project in Victoria	$92 mn	NAv	Construction begins 1980
Poland from Brazil	Polish Steamship Company will be supplied twelve bulk carriers by Ebin Industria Naval and Estaleiro So., both of Brazil. Much of ships equipment will be Polish-manufactured	$80 mn	NAv	Order placed
Brazil from U.S.	Trans-Brasil Linhas Aereas will purchase four Boeing 727-200 jets	$63.2 mn	U.S. and European bank consortium	Deal approved by Brazilian government
Western Europe from U.S.	International Harvester will invest $20 mn to improve its farm-tractor-control plant in Croix, France; $8.3 mn for assembly line adaptations at its factories in England, France, and West Germany, which will use the improved controls	$28.3 mn	NAv	Company announcement
Burma from U.K.	Britain will supply Burma 22 fishing boats, a fish processing factory, and related equipment. This is the biggest contract ever signed between the two countries.	$23-$30 mn	ECGD will guarantee $17 mn Hill-Samuel loan	Contract signed

Abbreviations:
U = Undetermined
NAp = Not applicable
NAv = Not available

Status:
I = deal signed
II = in negotiation
III = preliminary talks

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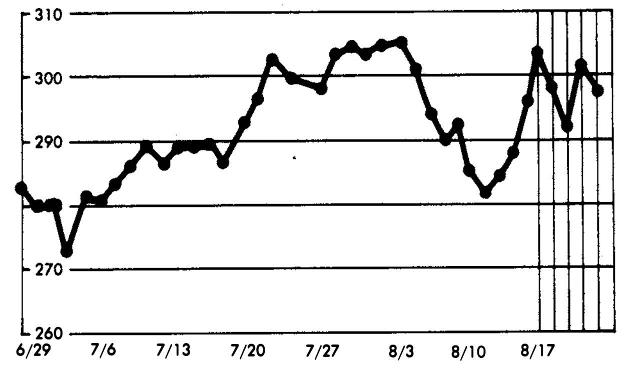
Gold,

London afternoon fixing

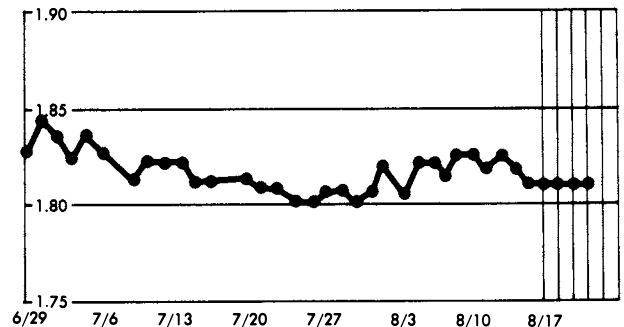
August 10	303.75
13	298.75
14	292.00
15	301.85
16	297.85



The dollar in deutschemarks

New York late afternoon

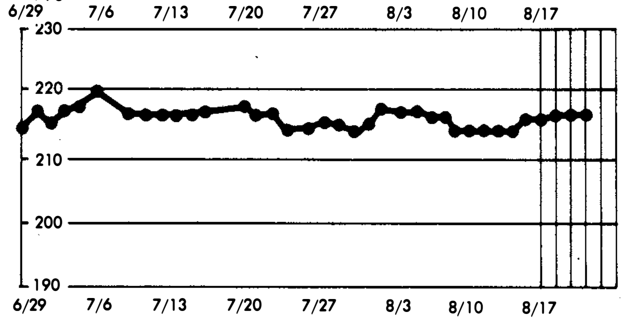
August 9	1.8218
10	1.8210
13	1.8290
14	1.8285
15	1.8285



The dollar in yen

New York late afternoon

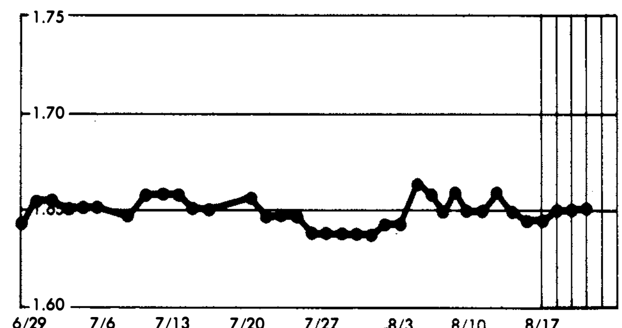
August 9	215.98
10	215.70
13	216.55
14	216.60
15	216.70



The dollar in Swiss francs

New York late afternoon

August 9	1.6485
10	1.6435
13	1.6558
14	1.6530
15	1.6530



The British pound in dollars

New York late afternoon

August 9	2.2375
10	2.2485
13	2.2340
14	2.2375
15	2.2410