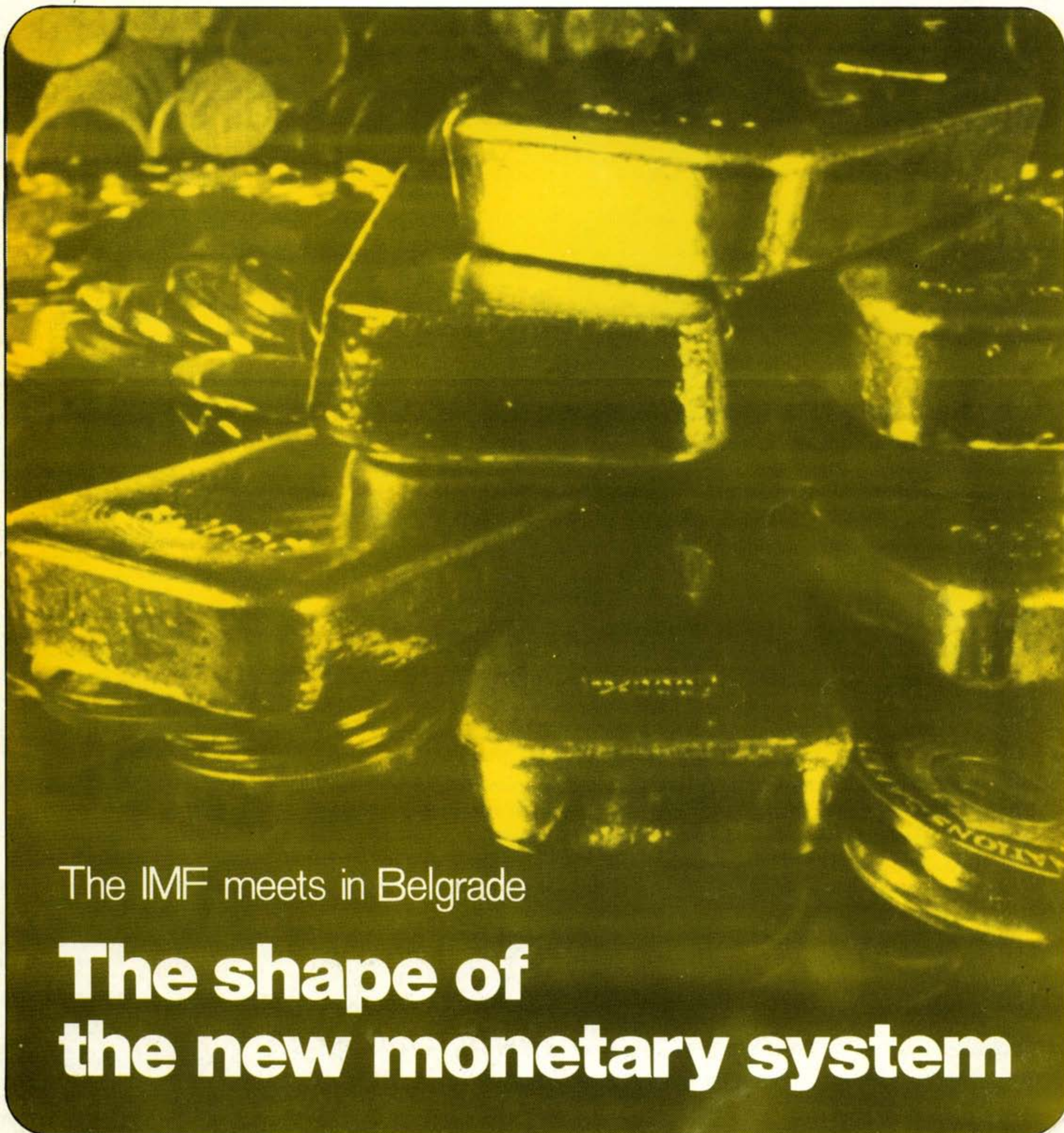
EXECUTIVE INTELLIGENCE REVIEW

October 9-15, 1979



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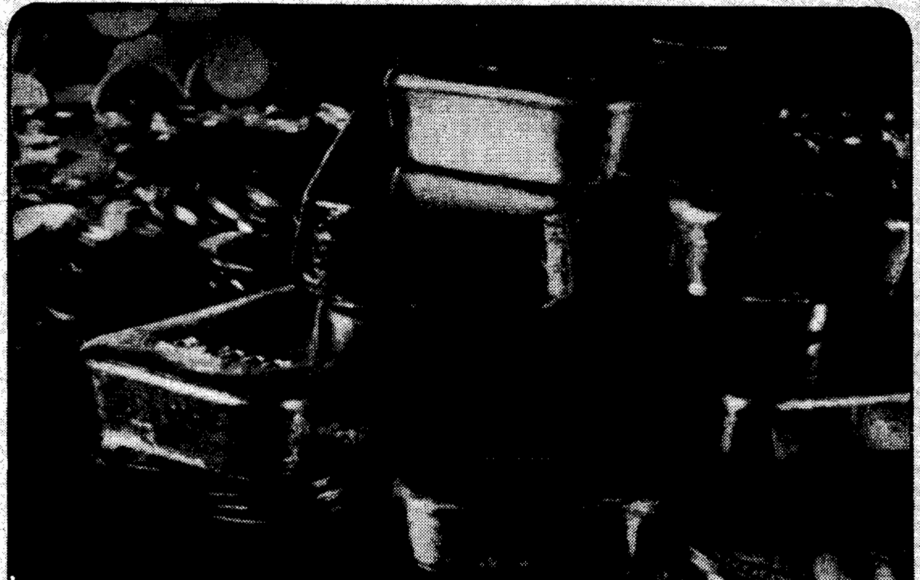

The shape of the new monetary system

Developments at the International Monetary Fund meeting in Belgrade have placed the world on the brink of a brand new monetary system, based on the remonetization of gold at prevailing market prices. But—will it happen? Our INTERNATIONAL report covers the dialogue now underway between the European Monetary System nations and the rest of the world in search of a solution to currency chaos and poverty. Yet, might London produce a monetary blow-out to prevent their success? Will the Europeans go all the way, or resort to mere reform of the IMF? And will the United States take the golden opportunity the European Monetary System offers? Included: a full report on gold pooling proposals, and—"A French manifesto."

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Dismantling the railroads

This week's ECONOMIC SURVEY asks and answers the question: Is someone making money by bankrupting the U.S. railroads? An intensive research effort by a team under Economics Editor David Goldman results in startling disclosures about the history, and the financial and physical state of the U.S. rail system. Included: the paradigmatic Penn Central—"How to make $8 billion off a bankruptcy." **Page 50**

A new era ... or the end of all eras

President Lopez Portillo's historic speech on energy to the United Nations was blacked out of the U.S. press. Can the State Department mean what it says to the nations of the world—it liked the Mexican proposal? In our SPECIAL REPORT, we are pleased to reprint the Lopez Portillo speech in full—once again, a major event that can only be read about in EIR. Included: the Mexican president's explanation of his strategy to Latin American delegates, a full report on the "brutally frank" Lopez-Carter summit talks—and some candid Lopez remarks about the American president. **Page 22**

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Oil fever hits U.S.—North Sea swindle?

There's plenty of oil in the United States, and even the multinationals will drill it up—for a price. With all the new oil that will be found as soon as deregulation occurs, why is no one talking about lower prices? We give you an in-depth ENERGY report on how the oil majors plan to "solve" the energy shortage, plus: a history of U.S. "oil shortages" dating back to 1866, and "Iran: the trigger on the oil weapon." **Page 30**

State Department still fighting Vietnam War

As we reported in last week's cover story, three million Kampucheans are dead. Will millions more die of starvation and disease for lack of a massive international relief effort? The parties responsible for the genocide—China and the U.S. State Department—now confirm their guilt by openly colluding to block any aid except that which will serve to rearm the deposed murderer Pol Pot. Now, Southeast Asia tensely awaits a new Chinese invasion of Vietnam. Will the open nature of Carter Administration support for Peking cause the Soviet Union to take off the gloves?
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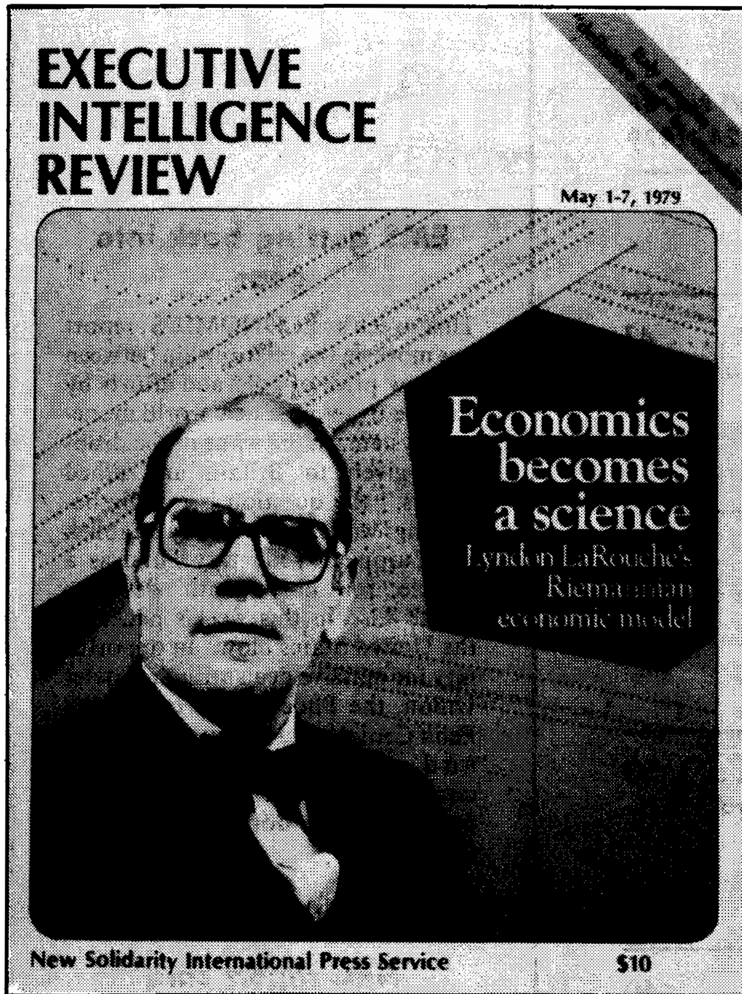

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Carter, Cuba and the IMF

The caustic comments of Mexican President Lopez Portillo in a recent press conference, that the United States is being run by a "presidential precandidate, and not a President," aptly reflect world perception of the vacuum of leadership in Washington. President Carter's Oct. 1 television address to the nation, in which he attempted to extricate himself from the absurd "Cuba crisis" fanned over the past weeks by Sen. Frank Church, only took us deeper into the mess.

At stake, Carter admitted, was the future of NATO.

"The leaders of our European allies support SALT II unanimously," said Carter. "I must tell you tonight that if the Senate fails to approve the SALT treaty, these leaders and their countries would be confused and deeply alarmed. If our allies should lose confidence in our ability to negotiate successfully for the control of nuclear weapons, then our effort to build a stronger and more united NATO could fail."

Verifying this perception was a communiqué issued Oct. 2 by West German Chancellor Helmut Schmidt and French President Giscard d'Estaing following their Bonn meeting. "The French and German heads of state do not view the presence of Soviet troops in Cuba as having any relevance to the world balance of forces," read their blunt statement.

But the point goes far beyond SALT II. The policies that Carter announced in his speech remain a direct political-military threat to Western Europe's commitment to foster Third World economic development in cooperation with the Soviet Union.

The crux of the matter is the International Monetary Fund-World Bank. And Carter emphasized that the issue was not Cuba at all, but Soviet and Cuban activities "in the Third World."

It cannot be lost on Europe that the entire flareup over the "Soviet troops"—troops acknowledged to have been on the island since the 1962 settlement of the Cuban Missile Crisis—coincided with the Nonaligned Movement's summit in Havana in early September. There, under Cuban leadership, IMF genocide policies were attacked by name and the developed sector was urged to invest in the economic development of the Third World. That strategic question has come to a head with the Belgrade annual IMF meeting.

The measures put forward in Carter's speech indicate U.S. readiness to intervene militarily and make sure IMF conditionalities are enforced in the developing sector. Carter said that the defense secretary has been instructed to "further enhance" the rapid deployment strike force, which is considered aimed particularly against the oil producing nations. He announced expanded maneuvers in the Caribbean, and the readiness of the United States to "assist" any Western Hemisphere nation militarily, including steps to set up a Western Hemisphere military force.

Then he said that U.S. naval presence in the Indian Ocean was reinforced. The news came as other administration sources confirmed the upcoming visit of Defense Secretary Harold Brown to China, the first such trip by an American defense secretary. These are clear signals that the United States will back Chinese expansion policies throughout Asia, just as Peking is negotiating its formal entry into the IMF-World Bank.

At the very least, this means a new and devastating plunge in U.S. influence in the developing sector and in Western Europe, at a moment when the rest of the world is mapping a way out of the global crisis through economic development. The real isolationists are the people pulling the strings on "precandidate" Carter.

—*Nora Hamerman*

The Week in Brief

The Persian Gulf may soon see the formation of a "new CENTO" military pact in the region, according to reports received this week.

A military strategist for an Arab nation in the Gulf region summed up the situation this way: "We oil producers are being surrounded by a triangle. ... First, there is Iran, with a regime with expansionist ambitions far worse than the Shah ever had. Second, there is Oman, which wants to invite NATO police forces into the region. Third, there is Israel, which has designs on Syria via Lebanon. Cumulatively, this is very worrisome."

In a speech to pilgrims to Mecca this week, Iran's Ayatollah Khomeini invited his flocks to overthrow "the kinglets and sheiks who have departed from Islamic tradition," and announced that Iran must rebuild its military into an "all-Islamic army." These threats came only days after two of his closest collaborators

threatened the regimes of Bahrain and Kuwait with being overthrown.

And, while Khomeini threatens, his Foreign Minister Ibrahim Yazdi has been holding extensive policy talks with the New York Council on Foreign Relations and the U.S. State Department, triggering reports that a "normalization" of U.S.-Iranian relations is in the offing.

In tandem, President Carter has decided to beef up the U.S.'s Indian Ocean task force, and the Sultanate of Oman has announced in letters to various Gulf governments that Oman has invited the U.S. to establish "base rights ... to protect the Straits of Hormuz," the waterway through which many of the world's oil tankers pass.

* * *

The Jose Lopez Portillo-Jimmy Carter summit discussions were "frank, at times brutally frank," according to the post-summit evaluation of the Mexican president. U.S. press preferred to characterize the U.S.-Mexico summit held in Washington on Sept. 28-29 (the third one between Presidents Lopez Portillo and Carter) as a "relatively low-key affair," which ended on a "warm and cooperative note."

President Lopez Portillo made clear in a series of press conferences and in a report to his nation that the new talks with Carter left much to be desired in Mexico's view, especially on such issues as human rights for Chicanos, the Ixtoc-1 oil spill, and the U.S. campaign theme of a North American Common Market.

* * *

"We have friends in the world who need to have their oil supplies ensured," said Iraqi Oil Minister Hammadi in an interview this week, referring to the political and economic agreements being wrapped up between OPEC and the European Community. "We must provide them with what they need and we expect to have their support where our political cause is concerned."

Hammadi was alluding to unprecedented agreements with the governments of France and West Germany to ensure future oil supplies in return for European recognition of the Palestine Liberation Organization, and backing for an overall Mideast peace pact.

Mana Saeed Oteiba, the United Arab Emirates oil minister and president of OPEC, stressed at an energy conference in Rimini, Italy the interdependence of Europe and the Middle East and the Arab nations' need for European technology. Against this backdrop, the North African and Persian Gulf oil producers have begun to reduce oil sales to the multinational oil companies in favor of increased state-to-state agreements. Both the Algerian and the Saudi oil ministers attacked oil price speculation by the multis and called for an international institution to monitor world oil markets.

* * *

Soviet President Brezhnev and Greek Prime Minister Karamanlis have signed a broadranging economic and political cooperation agreement which is to span a 20-year period. Energy was a top priority of the type of cooperation under discusson, including the sale of Soviet oil to Greece. Greece has already stated its intention to participate with Eastern and Western European nations in a project for a natural gas pipeline.

Karamanlis, the first Greek premier to visit Moscow ever, received a high-level greeting at the airport from his counterpart Alexei Kosygin, Soviet Foreign Trade Minister Patolichev, and agriculture and other economic ministers as well.

The Oct. 3 Soviet-Greek agreement contains a political document which outlines a common declaration of principles for relations. Karamanlis is expected to go to Czechoslovakia and Hungary after Moscow where he will discuss Balkan security matters. From there he will travel to Western Europe.

In Moscow, Karamanlis called his trip "a necessary and natural step forward." Brezhnev, in a welcoming speech emphasized the groundbreaking importance of European detente efforts.

* * *

The British government is readying new proposals for "peace" in Northern Ireland and a reunification of north and south. Mr. Humphrey Atkins, the British Minister for Northern Ireland, announced this week that he hopes to put the outlines of the new plan before Parliament shortly, but would reveal no details of its contents, nor of the confidential talks he has been holding with leading politicians in the British province.

Atkins did reveal one dramatic new element however: Sir Maurice Oldfield, former head of MI6 (British Intelligence) and the model for "M" in the James Bond stories, is to become the new security coordinator in Belfast. Sir Maurice will command a joint staff drawn from the Army, the Ulster police force and the civil service—which traditionally controls intelligence functions. Sir Maurice's first job will be to smooth rifts in the security forces which have arisen since the August murder of Lord Mountbatten by terrorists.

British Prime Minister Thatcher indicated in statements this week that the Pope's visit to the Republic of Ireland was a consideration in speeding up the government's timetable. "We earnestly hope that the Pope's visit will create a new spirit of cooperation," Thatcher said. However, two days after the Pope's visit, the Provisional IRA announced that "force is by far the only means of removing the British presence in Ireland."

In a separate terrorist incident, a bomb exploded in a Belfast commercial area killing two.

A dollar recovery... without a support operation

At deadline on the afternoon of Oct. 4, the U.S. dollar stood at 1.7650 to the West German mark and 1.5835 to the Swiss Franc, a recovery of almost two percent from lows scored earlier in the week. This occurred despite the fact that the Federal Reserve Board announced no measures to support the American dollar, which had been widely expected after discussions to this end between American and West German officials during the International Monetary Fund's Annual Meeting in Belgrade. Such a package had been anticipated especially after the flight home from the meeting on Tuesday of Fed Chairman Paul Volcker. However, the Bundesbank met today and dispersed without making an announcement, and Bundesbank officials said privately they expected no package to be forthcoming.

FOREIGN EXCHANGE

Nonetheless, a strong move out of short positions against the dollar began this morning in continental Europe, which pushed the dollar higher, while the gold price fell dramatically to $381 by the New York opening. New York market operators were entirely taken aback by the dollar's sharp improvement.

There are important background factors which make these events comprehensible. The most important question asked about the anticipated support package was, why would a repeat of November 1978's $30 billion intervention fund affect the market, particularly when the Fed has repaid most of the swaps drawn down during that period of dollar weakness, and has ample intervention resources? That point was made by West German Finance Minister Hans Matthoefer, in a discussion with the *Journal of Commerce* of Oct. 4.

In fact, additional monetary austerity in the United States—the "steady course" promised by Treasury Secretary Miller in his speech to the Belgrade meeting—could have a perverse effect upon the dollar, according to some European analysts. The chief of foreign exchange at a major Swiss bank warned that a rise in the American discount rate above the 12 percent level might make the dollar into an "exotic currency like the Brazilian cruzeiro," with ever-higher rates of inflation following rising interest rates in a self-feeding spiral.

Now that the American capital markets (see DOMESTIC CREDIT) are groaning under the weight of a $15 billion Treasury financing schedule during the fourth quarter, and cringing from the threat of liquidation of bond portfolios on the part of some cash-short financial institutions, a rise in rates that could precipitate trouble on the bond markets would unquestionably have a perverse effect on the dollar.

From this standpoint, a dollar support package of the usual kind would either do nothing whatsoever or create problems worse than those it proposed to solve.

An increasing number of financial community and official sources are discussing direct action on the gold market as a principal means of supporting the dollar. Some European foreign exchange sources, in fact, believe that the mere threat of the creation of a European gold pool—proposed today in the editorial column of the respected Paris financial daily *Les Echoes de la Bourse*—will be adequate. The Swiss foreign exchange source cited above suggested that the European central banks will have to go into the gold market and control the price. However, he warned, if they did this in an organized fashion, it would mean the re-establishment de facto of an official gold price and the remonetization of gold through the European Monetary System. He hoped, rather, that the Europeans would merely sell off some gold to depress the price.

According to Paul Fabra in *Le Monde* today, Swiss National Bank Governor Fritz Leutwiler is eager to go along, but the French will not. French Finance Minister Monory told Fabra, "We will not sell off gold on the market to depress the price. Why should we?" But the French may *buy and sell gold to stabilize the price.*

Some longstanding opponents of gold remonetization in the United States are now willing to throw in the towel. Citibank economist Harold van Cleveland now suggests that the United States agree to the use of gold as a monetary asset in central banking.

It seems clear that some form of gold remonetization on behalf of the European Monetary System, but not prejudicial to the dollar, is underway. And it is entirely possible that word of this caused the dollar's sharp recovery this morning.

—*David Goldman*

COMMODITIES

International power play in metals

"Complete pandemonium" was the way one well-established veteran of international metals trading described the fantastic fluctuations in metals contracts on the New York and London commodities markets from late September through Oct. 3. "It has nothing whatsoever to do with fundamentals," he added.

Through September, the prices of silver and copper moved gradually upwards, from $8 an ounce and 85 cents a pound, where they had been sitting through the summer months, to $13 and 90 cents, respectively. Even that gradual uptrend, especially in the case of silver, tipped traders off that some "big money" was spilling out from gold investments into industrial metals.

On Sept. 28, copper leapt 17 cents for the December contract in a single day triggering: a 1979 record producer price for copper of $1.07/lb.; a 37 cent per pound price for zinc; forecasts that sugar and other agricultural futures would soon follow the upward spiraling metals; and a record Dow Jones commodity index of 280 points, a 14 percent rise in three weeks.

All in all, the boom held firm for 24 hours. On Oct. 2, copper slipped 14 cents in a few hours of trading. The price of oil on the spot market fell $7 the same day. Across the board, New York's commodity trading houses were saying, "We don't know if we're bullish or bearish."

"I just did an analysis of the cost of producing a pound of copper," a leading trader underlined. "It's 75 cents. As far as I'm concerned, if you look at the fundamentals, copper could drop down to that region." When reminded that during last winter's metals price boom, this trader was predicting $1.25 price for copper, he snapped back, "The U.S. wasn't in a recession then."

It wasn't the New York commodities houses who kicked the "boom" off, however. Silver and copper price rises were triggered by an international network of funds-rich investors leading a second tier of smaller portfolios around on a leash. Fantastic rumors are circulating in New York and London about where the

DOMESTIC CREDIT

U.S. interest rates? Look at Brazil...

"More interest rate rises will only cause more problems for the dollar," a top money market analyst at Crédit Suisse headquarters in Zurich commented last week. "Look at Brazil with 50 percent interest rates. They have what's called an 'exotic' currency. Up to 12 percent interest rates in the U.S. may have been all right, but no further."

While the growing perception among strategic-minded analysts may be that higher interest rates will harm, not help, the dollar—by provoking a chaotic recession in the U.S.—domestic interest rates are now shooting up of their own built-in momentum.

The corporate sector

The massive $1 billion debt issue placed by IBM last week—the largest by a corporation in history—was just the first of a flood of new bond issues that corporations are expected to float in the weeks ahead. IBM decided to accelerate its note and debenture sale on the belief that inflation and interest rates have *not* peaked and that the corporation would have to pay even more to borrow later in the year than the 9½ and 9⅜ percent coupons on last week's triple-A-rated issues. And companies with less cash than IBM are probably going to be in an even greater hurry to borrow.

The main impetus for the anticipated rush by corporations into the bond market, after a period of exceptionally low volume, is the erosion of corporate liquidity.

Corporate treasurers who have been taking on short-term debt in near-record amounts since the beginning of the year—on the expectation that long-term interest rates would be headed down soon—are now under pressure to shift their borrowing into the bond market. Otherwise, their balance sheets will become even more top-heavy with short-term debt. The Miller-Volcker high interest rate regime has been the principal engine fueling the cycle of rising borrowing costs, inflation, and credit dependency.

big money came from, and whether or not it has already been liquidated for good, or is holding partial positions for another bout.

The impetus for the September-October rush into metals came from London, both in the leading financial press and the offices of the Bank of England. On Sept. 20, *Financial Times* correspondent Samuel Brittan proposed at great length that metals and other primary commodities should be officially consecrated, by international government agreements, as monetary assets.

Sir George Bolton of the Bank of England, the author of the concept, represents a specific alliance of international financial groups—stemming from London, and emanating through old colonial ties into South Africa and parts of the Mideast (the Persian Gulf, in particular).

Since last winter, Bolton has circulated speeches and proposals for "monetization" of commodities. Bolton's network first moved into action last January, in the wake of the destabilization of Iran, to trigger a metals price boom which netted an average 30 percent U.S. industrial metals inflation rate. At that time, leading South African investor Peter George made a special trip to New York to circulate the financial press interviews and private consulting hints which boosted the metals prices takeoff.

The call for "monetization" of industrial metals was a Bolton counterattack against continental Western European moves to remonetize gold. If the EMS takes charge of the Euromarkets, gold-poor Britain and its satellites, as well as their overall policy of rigged scarcity, will be an an extreme disadvantage. Make gold just part of a "basket" of currency-linked metals, and the Bolton network's vast international metals holdings will secure their international financial position.

But in comparison to the January-March boom in metals prices, the September-October round was short-lived. Widespread awareness exists among trading veterans that if a metals bubble were to pop under the weight of declining U.S. industrial activity, a lot of investors could get burned.

Simultaneously, wild rumors are coursing through New York as to exactly how the "big money" which was brought into metals in August was "rigged." One story going around, which has some credibility since it involves a network which overlaps Bolton's, insists that Peter Fribourg, chairman of the Chicago-based Continental Grain company, made a deal through his Geneva office with major Arab investors to go heavily into metals. As the story goes, Fribourg's European friends got a $10-12 billion commitment in Arab funds to go into silver and copper, of which about $3 billion was actually invested before the contracts were cashed in.

—Renée Sigerson

Public borrowing

The problems facing the credit markets are compounded by an especially heavy calendar of borrowing by the U.S. Treasury. The Treasury, which also "misjudged" the current interest rate cycle and counted on a peaking of rates by the fourth quarter, must finance in the neighborhood of $15 billion in new cash needs this quarter, in addition to refunding a large slate of maturing securities.

The $3.5 billion of two-year notes sold by the Treasury Oct. 3, which yielded a record 10.21 percent, was a preview of the yields the Treasury will have to offer in the weeks ahead. Just as the Treasury is entering the market, the sources of funds are drying up. Some 40 percent of the $5.5 billion of Treasury coupons which mature in mid-November are held by commercial banks and thrift institutions, which are unlikely to roll over their holdings.

The commercial banks are presently liquidating Treasuries to accomodate the surge in loan demand from debt-strapped, cash-short corporations; and the thrift institutions are having a lot of trouble holding on to their low cost deposits. Adding to the upward pressure on Treasury rates is the fact that European and Arab central banks, who indirectly held down the U.S. interest rate structure last year through their large purchases of Treasury securities, are now net liquidators of the bonds, and are showing a much greater eagerness to invest their dollar holdings in gold than depreciating U.S. Treasury paper.

The lending institutions

The continuing rise in interest rates is causing big problems for the financial institutions themselves. Bond houses are taking sizeable losses on their portfolio bonds, which are being resold at large discounts. The bond houses are thus extremely reluctant to add to their own portfolios at present.

Thomas Synnott of U.S. Trust is closely monitoring the fate of a number of U.S. savings banks, which he described as being "on the edge." The savings banks as a group are operating on extremely narrow margins because of the high rates they must pay out on the new monetary market certificates to compete for funds.

And one well-informed bank analyst expects a sudden deterioration in the relative financial health of the life insurance companies. Until now the insurance companies have been running substantial cash in flow positions relative to their commitments. But with no interest rate peak in sight, policy holders can be expected to take out loans against their policies (at fixed low rates) as they did in 1974-75, forcing the insurance companies to scramble for very dear short-term cash.

—Lydia Schulman

AGRICULTURE

At the farm banks, credit is tight

Record corn and soybean harvests have gotten underway on schedule in the U.S. The spring wheat is almost all in, the winter wheat planting is more than one-third complete, and export demand is climbing neatly. But credit conditions are unusually tight at the nation's agricultural banks, especially in the grain belt.

This fact, together with the quantum leaps in FmHA lending compared to private commercial banks, life insurance companies, and the Farm Credit System itself, are the most striking features of the current farm credit picture. Historically indifferent to boom-bust banking cycles, the rural banking system is in one of the worst crises in memory, measurably worse than that associated with the "crunches" of 1970 and 1974.

With the turnaround of the livestock cycle and recovery in livestock, wheat, and feedgrain prices and returns over 1978 and 1979, farm incomes have moved up from the nadir of 1976 and 1977. Total 1979 income is expected to reach $30 billion, up more than $2 billion from 1978. Yet, deposit growth rates at the agricultural banks—banks at which farm loans represent 25 percent or more of total loans—have not risen from their 1976-77 lows, and loan-deposit ratios are still climbing steeply, even though loan repayment rates have been improving.

July surveys in the Minnesota district, with Kansas City, Dallas, and Chicago, the key agricultural districts, showed a "higher than desired" loan-deposit ratio at more than 50 percent of the banks, the highest since 1964, and a fact which correlates with an increase in refusals or reductions of loan requests at Minnesota and other district banks. From 25 to 50 percent of the banks in these key districts indicated either that they expected difficulty in meeting third-quarter loan demand or were not actively seeking new farm loan accounts.

Since mid-1978 in particular, Federal Reserve surveys show, the average interest rate—typically on a track several notches below large money-center bank rates—has climbed rapidly compared to previous periods of "monetary restraint." Significantly, the range of rates on farm loans has also widened

CORPORATE STRATEGY

Cushman & Wakefield brings Hong Kong to N.J.

Next spring, groundbreaking ceremonies are scheduled to take place in Mt. Olive, New Jersey for what is billed as "America's most sophisticated foreign trade zone." A foreign trade zone like the one in New Jersey's Morris county is an extraterritorial enclave like Hong Kong, where foreign and U.S. multinational companies will operate free from U.S. duties and government regulations. The groundbreaking event will punctuate an intended switch of U.S. business from its traditional status as the world's leading exporter of high-technology capital goods into an oversized entrepot given over to foreign assembling plants and hotel and entertainment complexes.

The corporate entity most responsible for putting together the New Jersey foreign trade zone is Cushman & Wakefield, one of the country's largest and oldest real estate firms. Cushman & Wakefield has leased a major share of all office space constructed in New York City over the last thirty years, and is involved in every aspect of the real estate business: project consulting, appraising, leasing, sales, management, renovation, and now packaging foreign trade zones. Cushman & Wakefield is a subsidiary of Rockefeller Center, Inc., which gained a certain notoriety during World War II for housing Sir William "Intrepid" Stephenson, the Canadian national who, from his Rockefeller Center enclave, covertly set up the U.S.'s first intelligence agency along Anglo-Canadian specifications. Alton Marshall, who extended such hospitality to Sir William, is still Rockefeller Center's president.

"We are the exclusive rental and managing agent for the trade zone, and we were instrumental in joining Rockefeller Center, Inc.. and Lakeland Industrial Park, to make the trade zone possible," Tyson Maroon commented in a recent interview. "Ty" is the senior vice president at Cushman & Wakefield who brokered the partnership between Rockefeller Center and the New Jersey developer which owns the 667-acre site where the trade zone will be located. New Jersey's Governor Brendan Byrne, the man who brought legalized gam-

greatly—both between large and small bank lenders, and on individual loans granted by small banks. Agricultural banks—the nearly one-third of all commercial banks which together account for a mere 6 percent of total banking resources, and yet hold 51 percent of all farm loans in the banking system—have historically relied on deposits as their sole source of loan funds. As of March 1979, large time certificates of deposit ($100,000 or more), for instance, made up only 5.2 percent of total resourcess at agricultural banks, compared to 14.7 percent at other banks. The federal funds market has typically served rather as a place to invest liquid funds, not as a source of funds for the agricultural banks. As of March 31, 1979, agricultural banks were net sellers of $1.8 billion in federal funds, 2.5 percent of their total assets, while other banks were net buyers of $61.1 billion, an amount representing 5.2 percent of their total assets.

These patterns have, however, begun to change, with direct results on farm credit conditions. Sales of federal funds by agricultural banks have declined *relatively* from an earlier average of 4 percent of assets, and as of March 1979 the percentage of net buyers of federal funds among agricultural banks had jumped from 10 to 18 percent, with net purchases representing 2.9 percent of total assets. Further, agricultural banks have introduced a new six-month money-market certificate of deposit, which, today, one year after its first offering, comprises 5.7 percent of the total resources of agricultural banks nationally, compared to 3.1 percent at all other banks.

The pressures of this greater involvement with money-center institutions are acting to constrict credit availability and raise its cost—as dramatically shown in the FmHA lending record for the past two years. In the first nine months of 1979 alone, the FmHA made more loans—about $11.5 billion—than in any previous entire year period. CCC and FmHA loan expansion in 1977 and early 1978 largely replaced reduced commercial bank and Farm Credit System lending. But, in the last year, while FCS lending has begun to recoup, commercial bank loan levels continued to lag (despite reported high demand), and FmHA lending—the "safety valve" factor—soared.

The bulk of the FmHA lending is taking place under the authority of the "economic emergency" program established under the Emergency Agricultural Credit Adjustment Act of 1978, scheduled to terminate in 1990. Deliberation on this and similar measures in the Congress, such as the important Farm Credit Act Amendments of 1979 which I reported on a week ago, must address these difficulties, since the results will largely determine the direction of farm finance.

—*Susan Cohen*

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bling—and organized crime—to Atlantic City, also played an extensive role in founding New Jersey's first foreign trade zone. Under his direction the state applied to the Foreign Trade Zone Board at the Commerce Department in Washington for the trade zone designation, and it is now putting in access roads and other costly infrastructure.

The blueprints for the Lakeland Industrial Park complex call for an "office park," a major hotel site, retail and restaurant malls, and the largest foreign trade zone in the U.S.

The benefits of operating in a foreign trade zone are tremendous, according to Cushman & Wakefield's Mr. Maroon. The tenants of a zone—foreign or U.S. multinational corporations—pay no customs duties on their goods as long as they remain within the zone. "The cash flow savings can be enormous—in the range of hundreds of thousands of dollars," Maroon explained. "The companies get the full use of the money which would have been paid out in U.S. customs duties."

If the goods, once assembled by American labor, are exported to countries outside the U.S., the company never pays any duties. If the assembled merchandise is sold in the U.S. domestic market, the tariff rate is cut in half.

According to Ty Maroon, legislation permitting the creation of foreign trade zones within the continental U.S. has been on the books since 1934, but until recently it didn't make sense to locate in a foreign trade zone. Now it does for two main reasons: the relative cost of American labor has dropped greatly in real terms, and U.S. customs authorities now accept computerized inventory control to determine customs duties—imported goods are not inspected piece by piece.

Cushman & Wakefield is currently in negotiations with over 20 firms for space in the New Jersey zone, 60-70 percent of which are foreign based. The prospective tenants are mainly labor-intensive assembly plants in electronics and other fields—the sort of industry for which Hong Kong is infamous.

New York City's South Bronx may be the next stop on Cushman & Wakefield's new itinerary. State Senator Manfred Ohrenstein of the Bronx, who has a plan to situate a foreign trade zone in the devastated Hunts Point section of the South Bronx, hopes to engage Cushman & Wakefield to set up that trade zone, too. According to an aide to Ohrenstein, one of the main attractions of this site is "the large pool of unskilled labor waiting to be tapped." The real estate firm says that it has entered preliminary negotiations with Ohrenstein's South Bronx taskforce, and is interested, but commitments have not been made as yet.

—*Lydia Schulman*

A U.S.-Canadian trade war bloc

Sources close to the Canadian government and "Big Five" Canadian banks report that the "Big Five"—who are major lenders of U.S. dollars to the underdeveloped world—are intending to call in their Eurodollar loans. Among the effects would be intensified pressure on the U.S. dollar—from which Canada would effectively "decouple." The repatriated funds would be used to consolidate Canadian corporations and Canadian investments in the U.S. in anticipation of a "North American Common Market"—a bilateral free trade zone between the U.S. and Canada, with Mexico a jointly-looted peon-farm to the south.

WORLD TRADE

The seemingly nationalistic decoupling by Canadian investors from the dollar overseas would ironically be the means for fusing the U.S. and Canadian economies. Dollar collapse and global depression conditions would, in the minds of NACM planners, create political conditions in both Canada and the U.S. favorable to the installation of "recovery" regimes presiding over a 1930s-style autarkic continental trading bloc. Trade war against Western Europe would follow.

The planned warfare against the U.S. dollar is just one of the "anti-American" actions planned by Canada under the Queen's Privy Council and Progressive Conservative Party leader Joe Clark, to create the proper climate of crisis to make the NACM a "solution." Canadian authorities have recently seized several U.S. fishing ships off British Columbia for "fishing inside the 200 mile limit." and Canada has just slashed its October oil shipments to the U.S. by 75 percent.

Clark and others are on record as opposed to NACM. When Clark formed his cabinet last May, however, he brought in two leading members of the van Roggen committee (the U.S. Standing Senate Committee on Foreign Affairs)—Jacques Flyyn, now Minister of State, and Martial Asselin, Minister of State—which is the most enthusiastic NACM group in Canada.

The NACM has been in the planning stages among Canadian financial circles for a number of years, most notably through the work of Canada's Economic Council, a government thinktank close to the C.D. Howe Institute, which is the Canadian affiliate of the British North America Committee.

U.S. Treasury Undersecretary C. Fred Bergsten has been among the most conspicuous lobbyists for the NACM. Last March 30, the former Brookings Institution fellow told the Canadian-American Committee in New York that "problems in U.S.-Canadian economic relations have often served as harbingers of later, global issues of a similar nature." Virtually all the announced or semi-announced contenders for the U.S. presidency in 1980 have come out in favor of the NACM plan—with the exception of Lyndon LaRouche.

Why the NACM?

Tariffs between the U.S. and Canada are admittedly already low; following implementation of the new Multilateral Trade Negotiation (MTN) package, they will be slightly lower. Nevertheless, Canadian resource-based companies have found even the small U.S. tariffs sufficient to hurt their market share. This is a secondary issue, hower. The New York investment bankers involved in the NACM, along with the tight crowd of Canadian financial arbiters centered in the City of London but with important European inputs such as Belgium's Societe General, see the NACM as a supranational institution opposing nationalist tendencies, much the way Jean Monnet intended the European Common Market to suppress Gaullism and "Rapalloism" in France and West Germany. The NACM would function as the "control from above" while setups like ENCONO (the regional energy scheme of the Northeast Governors' Conference controlled by Lazard Freres' Felix Rohatyn) function to "balkanize" the U.S. economy from below. The European analogue is Otto von Hapsburg's concept of "Europe of the Regions"—European Community commissioners above, the ethnic regions below, and no sovereign nation-states in between.

The financial side of the NACM would be a continent-wide cartelization of business in the name of efficiently conducted trade war—a kind of commercial version of the perpetual wars between continents in George Orwell's *1984*. Interestingly, Orwell himself was closely associated with the architects of the 1931 Ottawa conference, a benchmark in the 1930s crash of world trade. The conference constituted the British Commonwealth as a protectionist bloc.

The labor policy of the NACM scheme would involve cuts in real wage levels to enhance competitiveness for North American trade war with Western Europe. This is discussed openly in volume two of "Canada-United States Relations," an organizing document for the NACM issued by the Standing Senate Committee on Foreign Affairs of Canada's parliament.

Although organizing for the NACM is just beginning to get off the ground in the United States, its more rabid supporters are already calling for a virtual fusion

of the U.S. and Canadian economies. The lead editorial of the Oct. 3 New York *Journal of Commerce* features Rodney de C. Gray, head of the Canadian delegation to the Multilateral Trade Negotiations. Gray is cited to the effect that a tariff-free zone between the U.S. and Canada isn't enough. The enemy, he says, is the European economic superpower which threatens to outweigh even the U.S. Canada must throw its lot in with the U.S. to combat the monster. The problem, however, is that in Washington is too parochial to mobilize adequately for joint U.S.-Canadian common interests against Europe, according to Gray. Therefore, he concludes, Canada must see to it that it gets "inside" the U.S.

Besides trade war with Europe, the NACM's sponsors intend to use it to turn the U.S. into a Canadian-model, low-population and energy-and-mining based raw materials area. A tendency for the U.S. to shift toward a Canadian "resources" model has been accelerating since the post-Iranian oil hoax. The strongest equities on the U.S. stock exchanges in recent months have been energy and certain mining stocks. Otherwise NYSE equities have principally been maintained in value by the wave of acquisitions and mergers.

Canadian financial interests have been quite active in U.S. markets in the past several years, reversing the traditional pattern of U.S. net direct investment flows northward. In 1977 Canada was actually the number two foreign investor in the U.S., and as of June 1978, there were over $2 billion investments in the U.S.—notably in speculative downtown areas of U.S. cities like New York, as well as illegal narcotics off-loading areas such as Florida.

One especially active Canadian investor in the U.S. has been Robert Scrivener, the head of Northern Telecom and a prominent organizer for the NACM. Scrivener has been running around the U.S. for the past several years buying up small U.S. high-technology corporations. His publicly stated dream is to combine U.S. and Canadian telecommunications into one operation supplied by Northern Telecom. He is already the supplier to Bell Canada.

Within Canada itself, the merger wave that has been taking place is being billed as essential to consolidate Canadian entities capable of taking on their U.S. counterparts once the NACM goes through. Hudson's Bay Company—a century older than the Dominion itself—bought Zellers, then Simpsons, only to be gobbled up itself by the Thomson Group, which announced it was shifting its investments back to Canada from the North Sea and Great Britain generally, where it functioned as a major press lord. Similarly, Brascan tried to grab U.S. Woolworths, before Brascan was absorbed by the Canadian Bronfman family's Edper.

The net tendency of these developments on both sides of the border—for which the NACM is intended to be the official green light—is to run into the ground most medium size independent enterprises in favor of consolidated U.S.-Canadian trade war cartels.

War on trade and wages

The following excerpts are taken from Canada-United States Relations, Vol. II, issued by the Standing Senate Committee on Foreign Affairs in June 1978. The van Roggen committee strongly supported the formation of a North American Common Market.

Preparing for trade war

The international trading world is consolidating itself into trading blocs. Canada has not joined in this process, and yet such is Canadian sensitivity even to suggestions for continental trading arrangements that the idea of a North American trading unit has not received reasoned public and political consideration.

On labor policy

This benefit from the [Canadian dollar's 1977] exchange rate depreciation is a one-time gain. Moreover, it will only be effective as long as salary and wage increases do not attempt to recoup the actual fall in Canadian living standards which the exchange rate decline reflects....

It used to be argued that bilateral free trade would be risky because it would encourage labour in Canada to seek parity with U.S. workers. However, average wage rates in Canada have in the last few years grown to the point where they equal or exceed those in the United States. Bilateral free trade should now be perceived as a discipline to hold Canadian wage rates in line.

Toward one economy

Multinational companies, no matter where their headquarters are located, seek the best rate of return. Providing that costs of production, adjusted by the prevailing rate of exchange, are lower than those of the United States, companies will have an incentive under free trade to locate production facilities in Canada and even to supply northern parts of the United States from them.

The IMF meets in Belgrade

The shape of the new monetary

For the first time since the International Monetary Fund and World Bank were founded at Bretton Woods in 1944, a representative of a leading industrialized nation has stood up and publicly attacked IMF policy toward the underdeveloped world. French Finance Minister René Monory, who led the French delegation to the IMF-World Bank annual conference in Belgrade this week, delivered "the bombshell" he had promised the press the day before when, on Oct. 1, he told the 7,000 assembled bankers and monetary officials that developing countries' access to IMF funds must not be conditioned, as they now are, on the recipients' adoption of savage austerity policies.

Monory's attack against conditionality was a joint attack. The Mexican leadership of the Group of 24 Third World nations had arrived with a call to bypass IMF conditionality because the conditions violate national sovereignty. Monory himself told the press Oct. 1 that "Industrialization of the underdeveloped world is an historic necessity. France considers it unacceptable that by the year 2000 one billion people are expected to be existing in utter poverty."

France's Wall Street Journal, the Paris daily *Les Echos*, followed Monory's speech with a call for "a new Bretton Woods conference under French influence" to establish an official gold-backed monetary system that would create appropriate credit for reversing the U.S. payments deficit and canceling Third World debt.

The day of Monory's speech, World Bank President Robert McNamara made a direct reply to France and Mexico. Addressing as well Yugoslav President Tito's opening statement that North-South economic relations are the world's central issue, McNamara said the following: "The main problem in the world is overpopulation. Either birth rates will decline or mortality rates will increase. To increase mortality rates in a thermonuclear age presents no problem. A war could meet the goal very rapidly."

Reports on how Europe responded to this statement from the Vietnam War veteran are not yet available. The U.S. government, however, through Treasury Secretary G. William Miller, promptly put itself on record as standing in agreement with Mr. McNamara.

The Mexican finance minister, David Ibara Muñoz, who heads the Group of 24, stated the next day that "the international community must undertake structural adjustments promoting the expansion of productive potential in developing countries and industrialized countries alike. Such urgent measures are difficult to realize when disunity or obstruction prevails."

The followup

The IMF and World Bank were designed, as the record shows, to ration credit to payments-deficit advanced economies and to derail post colonial nations from industrializing. The World Bank, which handles the "project loans," as distinct from balance-of-payments lending, then grants Third World nations "development loans" tied to policies of subsistence agriculture and depopulation. The European Monetary System, founded in July 1978, set out to junk these policies.

The intra-EMS debate pending is how and when EMS leaders will junk the institutions—the IMF and World Bank—themselves.

According to the French embassy summary of Monory's Oct. 2 speech—at deadline the only source available—the French finance minister emphasized the success to date of the European Monetary System and its openness "to cooperate toward a better world economic order."

He went on to suggest that other industrialized countries follow France's example and ratify the doubling of World Bank capital. Monory also stressed in calling for softer conditionality that the IMF must play a "central role" in ensuring that underdeveloped nations get enough balance of payments assistance. The directorate of Italy's Christian Democratic Party the

system

same week passed a resolution stating that Third World development is essential and the IMF should promote it.

European private banking and governmental comments to *Executive Intelligence Review* this week provide some background to these formulations. What one well-placed West German spokesman referred to as the Europeans' "nonconditionality approach" involves taking the IMF's liquidity and using it to meet the Third World's immediate current-accounts needs, while dismantling the "teams" that used to dictate policy to debtors. The private banking consortia cited below would undertake *real* project lending.

On the state-to-state level, after his speech René Monory flew to Moscow, where he concluded major agreements on aerospace projects. Since the Soviets are major gold producers and responsible bullion market participants, the emerging gold-backed currency and credit system was undoubtedly discussed. According to European sources, the French government is pursuing the same discussion with leading OPEC representatives. The three negotiating parties—the French EMS leadership, the USSR, and the OPEC officials in question, as well as France's Mexican allies—have made it explicit over the past months and weeks that failure to resolve the development, energy and monetary questions is likely to trigger a new war.

Monory: EMS or vertigo of monetary disorder

The following is from the Oct. 3 statement to the Belgrade International Monetary Fund Conference by French Finance Minister Rene Monory: as briefly summarized by the French Embassy Bulletin.

We must wrest the world from the vertigo of monetary disorder and poverty. ... The establishment of the European Monetary System is a notable step toward more stable monetary relations. This monetary community is open to dialogue, and willing to cooperate toward a better world monetary order.

The American currency is undervalued, M. Monory declared.

M. Monory otherwise declared himself in favor of softening conditions of access to IMF resources for the developing countries. The IMF, he believes, has sufficient resources so as to treble its annual lending volume and play a central role in financing balance of payments deficits of developing countries.

Addressing himself particularly to representatives of the industrialized world, M. Monory first asked that these countries increase their public aid to developing countries (non-petroleum producers), which, he added, will have to pay in 1980 an addition to their oil bill totaling half the public aid granted by OECD and OPEC countries.

The French minister then invited the industrialized countries to strive at reaching the internationally set target of .7 percent of their GNP for aid. After recalling that France voted the doubling of the World Bank's capital, M. Monory wished that France be followed by all the participating countries.

"Dead on its feet"

According to Paul Fabra in the Oct. 3 *Le Monde*, IMF Managing Director Jacques Delarosière has already agreed to the IMF Development Committee's demand that the $10 billion special Witteveen Facility for the Third World drop its conditionality. The IMF lent a total of less than $4 billion in the 12 months to May 1979, or less than the year before, because commercial banks were financing its potential borrowers. In the past six months, according to U.S. Senate Banking Committee sources, whatever transfers the IMF has made were through conditionality-weakened facilities.

"We cannot have the kind of conditions which say cut the government budget deficit, cut inflation, cut monetary expansion, cut foreign borrowing, etc. That's all nonsense. We've got to really take part in the development of the country," said one of the EMS banker-strategists, based in Frankfurt on Oct. 4. "That means that every country has to lay down what it wants to do for its development, its industry, in a big plan, so we can really see what's going on."

Making the IMF unconditionally lend its cash while bankers and recipients set policy—this already-existing tendency was the subject of a horrified *London Economist* essay Sept. 29 (see below). Instead of commerical banks presiding over the bulk of the flow of funds to the LDCs, says the *Economist*, the IMF itself must

absorb private-sector liquidity away from the private sector. Otherwise the world "will wake up one day and find the IMF has died on its feet."

It should be added that European opposition to austerity conditions is far from a charitable stance. French President Giscard and West German Chancellor Schmidt took the step of founding the EMS because they considered (a) that there is no reason to let the IMF and World Bank go on destroying potential multibillion-dollar markets for high-technology industrial exports, and (b) that the war and depopulation threat made explicit by McNamara is an imminent one.

McNamara's statement in Belgrade is fresh evidence that no justification exists for allowing the IMF and its policy makers "dual power." Contributing editor Lyndon LaRouche, author of the 1975 International Development Bank proposal which helped shape the EMS, elaborates this analysis below.

The SDR question

The EMS was set up not only to initiate financing of mammoth development projects, with eventual treaty participation from Eastern Europe and the U.S.S.R., but to draw "excess" dollars into the financing. The IMF's counterplan, to place these dollars in a "substitution account facility" and issue Special Drawing Rights reserves, was the main item on the formal agenda at Belgrade. It was effectively shelved. Instead of the agreement in principle expected by the *New York Times* and, till last week, by the London *Economist*, there emerged no more than a lip-service agreement to study the plan details until the spring IMF Interim Committee meeting—as *EIR* had reported over the past months would be the case.

The Mexican delegation, on behalf of the Group of 24's 119 Third World members, opposed the substitution account proposal as having potentially "adverse effects

Showdown at the Belgrade corral

Following is an analysis of what's at stake at the Belgrade conference submitted on Oct. 1 by our contributing editor Lyndon H. LaRouche, Jr. who was in Detroit, Mich. at the time to address a campaign event. Mr. LaRouche is a candidate for the Democratic Party presidential nomination.

This week's Belgrade conference of the International Monetary Fund (IMF) nations will probably turn out to be the most consequential summit conference to date since World War II. Already, two factions among a majority of the world's nations are lining up, openly and behind the scenes, for a brutal showdown on the issue of "IMF conditionalities." As U.S. spokesman, Yugoslavia's Josip Broz Tito, argued at the recent Havana conference of the Nonaligned nations grouping, the issue of the IMF is the issue which will decide the question of war or peace in our time. Which side prevails at Belgrade this week could decide the fate of all mankind for decades to come.

The "IMF conditionalities" policy is essentially an arrangement under which the IMF assumes supragovernmental authority, assuming the power to dictate all the vital points of internal as well as trade policies of individual nations. The IMF's efforts to destroy the essential sovereignty of nations in this way is one of the leading issues being fought out at Belgrade.

The "IMF conditionalities" policy is also a policy of austerity modeled on the precedent of policies of Nazi Finance Minister Hjalmar Schacht. Just as Nazi continuation of Schacht's policy led to the genocidal practices of the wartime Hitler regime, so the effect of IMF conditionalities imposed on the so-called least-developed among developing nations is already creating genocide through combined effects of hunger, epidemic and associated social chaos. Otherwise, this combined Schachtian austerity and genocide is the policy of not only the neo-Malthusian Club of Rome, but also of the Royal Institute of International Affairs of Britain, and is the "controlled economic disintegration policy" of Cyrus Vance and other spokesmen for the New York Council on Foreign Relations.

The New York Council on Foreign Relations was created and remains a subsidiary of the British Royal Institute of International Affairs. The Royal Institute of International Affairs is itself the principal conduit for British foreign policy and the policies of the British Secret Intelligence Service.

Hence, it is not properly astonishing that the London and New York bankers are the principal backers of the "IMF conditionalities" policy, or that the Carter administration, controlled by the New York Council on Foreign Relations, should be in fact supporting such genocidal policies.

on the capital markets," i.e. on credit flows, while later repeating the usual formula that if SDR issues are expanded, they must be used to meet Third World needs.

Mexican Finance Minister Ibarra Muñoz again stressed Oct. 3 the view Mexico shares with OPEC, with the Nonaligned and with the French strategists behind *Les Echos'* manifesto: Namely, that energy, resource-development and modernization questions are inseparable from monetary ones, and that transforming the Third World technologically is the key to the advanced sector's own economic recovery. McNamara and Miller are equally aware that these policies are inseparable—from the other side. The conferences at Belgrade, public and private, continue as of this writing. The European opponents of IMF policy have the upper hand.

—*Susan Johnson*

The leading figures of the opposition to IMF conditionalities are France's President Giscard d'Estaing and Mexico's President Lopez Portillo. President Giscard is the principal public spokesman for the political side of the European Monetary System. President Lopez Portillo is acting as leading spokesman for the majority of the Nonaligned nations group.

Present indications are that the opponents of IMF conditionalities will push to modify the rules of the IMF to three effects. First, they will seek to propose to end the IMF's efforts to make itself a kind of world super-government, by asserting the principle of the sovereignty of nations in world monetary affairs. Second, they will provide nations the right to turn to alternative monetary-credit institutions outside the IMF-World Bank without being obliged to secure IMF or World Bank consent to this. Third, they will propose to end the IMF and World Bank's abuse of their powers to cause genocidal austerity conditions or to impose economic devolution of states.

It is also proposed that SDRs be backed by gold. I disagree with this. Such a measure might have been workable in 1968, during President Johnson's mismanagement of the economic crisis then, or during 1971, at the time John Connally misled President Nixon into creating the present spiral of inflation. Now it is too late for such reforms of the IMF. The IMF must be pushed aside to make way for a new, gold-based monetary system, and gold reserves should be directed toward the new institutions, rather than wasted in efforts to bail out the bankrupt IMF.

Economist: 'Fall-guy to the banks'

The following is from the Sept. 29 business lead in the London Economist, *titled "Say something at the IMF, if it's only goodbye."*

... The IMF has been trying to do two things about [exchange rate instability], neither very effectively.

The first is its new function of "surveillance" of exchange rates, with all the trappings of bogus power: consultations and knuckle-rapping for governments with perverse policies. This only diminishes the IMF's meagre stock of authority. The second failure is not the IMF's fault, but entirely member governments': they have been dragging their feet over the IMF's plan for a substitution account into which the world could tip some of its overload of dollar reserves....

... Yet the IMF is asking for no extra resources to finance [the $40 billion less-developed country balance of payments] deficits, as it managed to whip up after the mid-1970s jump in oil prices. With a supplementary facility and an increase in quotas agreed last year, the IMF's rich members believe the IMF has plenty.

And so, on the scale of its previous loans, it has. Nor, with IMF approval, do LDCs have difficulty in raising money from the commercial banks. But there are risks in the diminishing share of financing coming from international institutions. Overlending to countries with no earthly ability to repay on time (Peru, Turkey) is only one of them. ... A second is that the IMF is diminished to the role of fall-guy to the banks, with little to give itself; and that its role of channeling into sensible economic directions funds that have been handed out by governments for political reasons (Turkey again, or Egypt) may be by-passed.

Both of these ways of depreciating the IMF's influence would be harmful to the world's hopes of economic stability. Throughout the painful death of the high-growth hopes of the early 1970s, the IMF's influence on mismanaged and unstable economies has been a force for good. As the servant of the governments which set it up, it retains its influence precariously. If it loses its role as clearing house for co-ordination of economic policies; if its role as ruler of the international monetary system is seen to be a farce; if its share of official financing shrinks, its authority will be worn threadbare. If the finance ministers going to Belgrade won't—or can't—play demand management; and if they won't back substitution, they must find another way to bolster the IMF's role. The most imaginative would be a major expansion in the IMF's capacity: to allow it to go out and raise money in the markets to on-lend to deficit countries. Most finance ministers faint with horror at the idea. But, without some such, they will wake up one day and find the IMF has died on its feet.

Europe plans new world credit terms

Detailed plans for a banking consortium for large-scale development lending were discussed at a private meeting of European commercial bankers in the vicinity of Belgrade during the week of the International Monetary Fund and World Bank Annual Meetings in that city.

According to well-placed European banking sources, the new consortium will take a major role in lending to developing sector countries. "We are not merely talking about export credits," said one source. "We are talking about what we call *support lending.* For example, we are currently preparing a major loan for Cambodia," the first private-sector loan, or indeed loan of any kind, to be received by the new Phnom Penh government.

In large measure, the formal inauguration of the new consortium will institutionalize developments that have been in the works for some months. The current direction of affairs was outlined to a Berlin banking symposium at the end of last month by Deutsche Bank spokesman Wilfrid Guth and Crédit Lyonnais Director Pierre Brussolet.

Setting the policy

At that symposium Guth informed the International Monetary Fund and Bank for International Settlements, which have suggested controls on private commercial bank lending, that henceforward "cooperation" between the private sector banks and the official institutions would take place on terms set by the commercial banks.

Guth argued that since the commercial banks are doing the bulk of the "recycling" of surplus Arab funds and other international financial resources, they would make the decisions. In parallel remarks, Crédit Lyonnais's Brussolet said that the four or five top international lending countries must now coordinate their international lending policies.

A former private secretary to French President Valéry Giscard d'Estaing, Brussolet appears to be the "point man" in the new consortium. According to senior sources in the French finance ministry, European governments are going to back up these efforts in several ways.

First, French diplomacy is aimed at effecting a transfer of the bulk of oil-producing countries' deposits from London to Paris and Frankfurt. Such a transfer has been underway over the last several weeks in any event. Dresdner Bank last month provoked a storm in European banking circles (and some protests from the West German central bank) by marketing special securities designed as reserve instruments for central banks, including the monetary authorities of Persian Gulf states.

The deposits of central banks have shifted heavily into West German banks during the past several months—in both dollar and deutschemark denominations. Since the Dresdner Bank has performed the role of first-line marketer of gold to central banks, European commercial banks are in effect backing up the deposits of their central banking customers with gold.

In short, the concentration of international financial resources with the three dozen or so banks that met in Belgrade and that may invite one or two American banks in—has the character of a preparatory move toward gold-backed credit activity.

According to European banking sources associated with the management of the new consortium, the issue is not the use of gold as specie, but the denomination of deposits and credits in gold.

Such discussion has been underway since the spring of 1977, when *Executive Intelligence Review's* contributing editor (and now a candidate for the Democratic presidential nomination) Lyndon H. LaRouche, Jr. proposed the creation of a "private international development bank." According to the LaRouche proposal, the new consortium institution would attract deposits through the special advantage of offering its customers a gold position in proportion to their deposits and loans, possibly by denominating such credit activity according to a gold price index. Widely studied at the time, the LaRouche proposal is one influence in current European thinking.

The public-private combination

It appears likely, therefore, that the European commercial banks—under the direction of government-owned institutions such as the French nationalized banks—will take the first steps to a new international credit institution through a quasi-private initiative. The official position of the French government, expressed in a statement by French Foreign Minister François-Poncet before a press conference at the United Nations Sept. 29, is that the European Monetary System would form the core of a new international monetary system replacing the International Monetary Fund. However, François-Poncet said, the EMS is not prepared to do this immediately. Judging from last week's actions, it appears that the "private" banks—if an institution like the Credit Lyonnais can be called private—are taking the job on.

The last-named bank displayed an almost uncanny degree of market muscle last week, managing a syndi-

cated $1 billion credit for the Electricité de France, with an unheard-of 9-year grace period (for an 11-year credit) and an equally unheard-of interest rate of 0.4 percent above the cost of funds (as measured by the London Interbank Rate, or LIBOR). That is less than the usual cost of administrating such a loan, usually reckoned at about a half a percent above the cost of money. American and British bankers have complained furiously over the past year about "spreads" on international loans that fell from 1 percent for top-rated borrowers, to ⅞ percent, and then to 0.6 percent. Crédit Lyonnais's syndication for the French government-owned utility is entirely without precedent.

Banking analysts draw the conclusion that the French bank has succeeded in obtaining significant amounts of long-term international deposits, presumably from oil-producing countries, or it would never be able to handle a deal of this sort.

The same French finance ministry sources cited earlier also report that the market operation will proceed in parallel with a financial opening toward Eastern Europe. By the beginning of next year, the sources said, the Soviet Union and possibly other members of the Comecon economic group will have become associate members of the European Monetary System. In effect, the CMEA countries will link their external pricing arrangements to the EMS currency basket, the European Currency Unit, which includes a significant gold component.

East and south

This link is especially important for the relationship to the Third World. According to figures released this month by the Federal Reserve, the Soviet Union has reduced its short-term obligations to American banks from almost $1.2 billion to about $600 million in the five quarters to June 30. According to Bankers Trust economist and Eastern Europe expert Lawrence Brainard, the reduction is due to an exceptionally positive trend in the Soviet Union's relationship with developing-sector countries, who are buying Soviet manufactured goods. These include oil producers such as Iraq and Libya, who have a great deal of hard currency with which to pay for Soviet manufactures.

If the Soviets associate with the European Monetary System, it will be from a position of strength, not weakness. The primary focus will be joint credits to the developing sector, rather than Western European credits to the Soviet bloc. When West German Chancellor Helmut Schmidt and Soviet President Brezhnev met in Moscow last June, among the agreements they reached was a plan for joint export of nuclear-generating facilities to the developing sector. It is now clear that the Soviets have proved themselves in the developing-sector export market.

—*David Goldman*

'Gold is unstoppable': Remonetization ahead?

European authorities are planning to implement gold remonetization, possibly as early as mid-October, according to well-placed European banking sources. This would be accomplished by forming a "pool" among the European central banks to stabilize the gold price. One purpose would be to counter the chaos in the foreign exchange markets, which the Carter administration is incapable of doing on its own. But such stabilization of the gold price would also permit the immediate use of gold in monetary arrangements for credit purposes.

Les Echos, the influential Paris business newspaper, called on Oct. 4 for a new "Bretton Woods" conference to form a gold pool and officially remonetize gold—underlining the "productive" credit issuance this would permit, along with the suggestion that stable, expanded liquidity would make debt fogiveness for the Third World problem-free (see box).

At the Belgrade IMF conference, South African finance minister Owen Horwood was unusually aggressive on the subject of gold. Horwood made a publc statement Oct. 3 that "gold is alive and well and clearly performing important monetary functions. Efforts to demonetize it have collapsed." According to the *International Herald Tribune*, he "urged the IMF to reconsider its past actions and restore gold as an official asset, and praised the role of gold in the new European Monetary System as 'a significant step in the right direction.' "

The leader of the French delegation at Belgrade, Renè Monory, commented the same day that "the French have no interest in selling gold to depress the price." He added that the Swiss—some of whose banks got badly hurt shorting bullion last month—felt differently, but would not attempt sales without French agreement.

Now gold's de facto remonetization at the behest of European central banks, the Dresdner Bank, and allied Arab interests has already created unparalleled confusion in the ranks of the Anglo-American-centered international financial mafia which until recently has had the final word on global monetary policy.

The Anglo-American group's schizophrenic response is epitomized by a recent interview with a top source at Banque Crèdit Suisse, one of the Big Three Swiss banks,

which is known for its close ties to London's Lazard Frères.

According to this source, Crèdit Suisse would look favorably on any effort by the major central banks to "bring order" to world markets through coordinated gold sales, but absolutely draws the line when it comes to setting a specific price. "A gold pool, that would be going too far, really too far!" Crèdit Suisse emphasized.

Nevertheless, a gold pool—that is, a managed market in which central banks defend an official gold price—appears to be exactly what European governments are heading toward. Influential French and West German business circles hope to use gold-backed bonds, issued either by the European Monetary Fund or by a private banking consortium, to mop up short-term Eurodollars and redirect them into productive Third World investments. A relatively fixed gold price is required for such a plan to work.

The recent panicky run out of dollars into gold and other commodities was deliberately staged by some Anglo-American factions in order to destabilize this European effort. The gold price crossed $400 an ounce for the first time on Sept. 27, two days before the opening of the International Monetary Fund conference; by Oct. 2 it had reached an incredible $446 an ounce. When rumors began to surface that a major new dollar support package was in the works, however, the markets calmed, and gold fell back to $384 by the London afternoon fixing on Oct. 4.

A French manifesto

The following is from the lead editorial in the French financial daily Les Echos *on Oct. 4.*

Jacques Rueff was right all along. Now it is time to enforce his policy, because gold is unstoppable. Central banks must revalue their gold and form a gold pool including the U.S. as well. This would solve the following problems immediately: (1) the U.S. balance of payments deficit; (2) through gold, all Third World debt can be annulled. For this we need a new Bretton Woods meeting with French influence.

Counteroptions

According to a source close to Bank of England advisor Sir George Bolton, the latest gold rush was spearheaded in part by a Commonwealth-oriented British faction, which includes Bolton and has close ties to South Africa. This group believes Britain's strategic position in world raw materials markets should allow it to come out on top in a situation where all national currencies are discredited and a 19th century-style "real bills" system emerges, based on commodity holdings. This faction is therefore making a run out of paper into commodities, including silver, copper, and other base metaly.

However, other British factions, typified by Lazard and Crèdit Suisse, are terrified that the market chaos could provoke the Franco-German group to move more agggressively toward implementing a development-oriented world monetary reorganization. The Lazard group will, therefore, welcome a dollar support package but fears anything which smacks of gold remonetization.

Reflecting this faction's concerns, all kinds of rearguard proposals involving gold have surfaced in the past week, including that of Charles Stahl, publisher of the widely-circulated *Green's Commodity Market Comments.* Stahl has proposed that a gold pool be created under the managemenι of the International Monetary Fund, but with the following stipulations: The IMF will sell gold to anyone at a price of about $400 to $420 an ounce and buy at $200 to $220.

In other words, Stahl's plan provides such a large trading range that it will be fully coherent with U.S. Treasury efforts to demonetize the metal. It was Stahl who denounced Dresdner bank Chairman Jürgen Ponto in his newsletter as "the führer of the international gold standard" shortly before Ponto's assassination in 1977.

Gold-backed SDRs

Another effort to contain Europe's drive toward gold came from Rimmer de Vries, Morgan Guaranty's chief economist, who suggested that the IMF use its $30 billion in gold holdings as backing for the SDR substitution account—a ludicrous proposal given that the Special Drawing Right was created in the first place to *replace* gold. De Vries's plan was covered by *Business Week* in an Oct. 8 cover story entitled "The Dutch Money Masters: How a Worldwide Clique Influences Foreign Exchange Rates."

The article purports to demonstrate that an "international Dutch conspiracy" is behind world monetary developments, although the "pragmatic, realistic" Dutch-born officials cited are better described as sub-operatives of a larger Anglo-Belgian directorate.

The article, by monetarist *Business Week* editor Bill Wollman, gives the following overview: "Already the new European Monetary System (EMS) has a 20% gold backing for its own unit of account, the ECU.

"Putting gold behind the SDR would then set up two international monetary funds, one dominated by Germany and its strong mark to which the gold-backed ECU is linked, and the other dominated by the U.S. and its weak dollar that is slowly being absorbed into gold-backed SDRs." The *Business Week* article concedes the improbability that the gold-backed SDR proposal will get anywhere, belatedly acknowledging that the EMS itself can "sop up" and recycle dollars.

—*Alice Roth*

Nicaragua calls for debt moratorium

Addressing the United Nations on Sept. 28 on behalf of the Reconstruction Government of Nicaragua, Commander Daniel Ortega called on the international community to provide unconditional aid to Nicaragua for its efforts to leave behind the "bondage" in which the country had been left by Anastasio Somoza. Ortega specified aid to relieve the tremendous debt burden—$1.6 billion of which $600 million is due this year.

Nicaragua "cannot pay that debt," Ortega said, "nor will it indebt itself anew to pay that debt. ... It is our opinion that the external debt which Somoza left in Nicaragua must be taken over internationally, particularly by the developed countries, by the economically powerful countries, and in the first place by those countries which routinely fed Somoza with financing."

At a press conference later that day, Sergio Ramirez, also a member of the governing five-man junta, said:

"Those who loaned (to Somoza) knew to whom they were lending ... and were perfectly aware at the time of Somoza's incapacity to repay," said Ramirez. "That is why we say the foreign debt is an international responsibility and why we require a moratorium to deal with these debts. The terms of the moratorium are what we are now ready to negotiate."

Nicaragua's announcement provides a backdrop to the ongoing discussions at the International Monetary Fund meeting in Belgrade. Behind the question of Nicaragua's debt renegotiation is the question of the IMF's "conditionality" policy generally.

Wall Street flips

Ortega and Ramirez's statements reflect no change in the government's strategy since the Reconstruction Government's victory on July 19: the reconstruction and development of Nicaragua comes first—even before international obligations.

Loans made for arms purchases by Somoza and loans which went straight to the international bank accounts of Somoza and his cronies have been declared illegitimate and will not be recognized by the government.With all other debts, the government has done the only possible and sane thing: declared a moratorium on payments until the country's productive capacity is rebuilt.

Turmoil and "confusion" broke out immediately in the international financial community. The *New York Times* called Ortega's statement a "repudiation" of the debt. Rumors began flying. One banker told an inquirer that Nicaragua had definitively repudiated all its debts. "It says it right here in the *New York Times,*" he claimed, "they repudiated their debts."

Said the U.S. State Department: Mr. Ortega's comments could not be taken as a "trustworthy" representation of Nicaraguan policy. "They're really amateurs at running a government." Now teams of bankers are rushing to Managua to get assurances that all the debt will be paid...sooner, rather than later.

A Hamiltonian credit policy

No one expects payment on the $600 million due this year. And with a total of $3.5 million in reserves left by Somoza, there is simply no money to pay. So what is at issue here?

The Nicaraguans have been told that if they want significant aid they must sign an agreement with the IMF and accept its conditionalities. As the *Baltimore Sun* put it: "An IMF loan would be a crucial step, since it would impose on the new government fiscal restraints so important for its long-term survival."

The Nicaraguan's think differently. New debt, said Ortega, will not be thrown after bad. Resources earned as the country gets back on its feet will not be sent straight to the banker's coffers, but reinvested in building the productive capacity and raising the standard of living that in the longer term will make even Somoza's bad debts a valuable investment for those with the foresight to wait for their return.

The solution to the debt problem was detailed by junta member Alfonso Robelo at an early August meeting of the Latin American Economic System's directorate in Caracas, Venezuela. Robelo proposed a $2.5 billion Reconstruction Fund to, in the short term stave off the likely 15-20 percent collapse in the country's GNP by the end of this year. If that money comes through, then within 10 years Nicaragua can become a "miracle" economy, said Robelo.

Robelo specified that the $2.5 billion does not include the present debt and that in all cases the money must be unconditional. Calling for the "softest terms possible" on this credit, Robelo suggested five ways of investing in the fund: direct central bank deposits, in the form of foreign exchange; soft loans, with a high concessional content, for the financing of imports; short and medium term credit lines for the acquisition of basic necessities; and floating Reconstruction Bonds , an idea being coordinated internationally by the Nicaraguans with the Mexican government. Because these bonds would be a direct investment in the future productivity of the nation, the latter approach follows the methodology of Alexander Hamilton in putting the credit of the U.S. on a sound basis. It is a useful innovation for the general problem of recapitalizing bad Third World debt.

—*Gretchen Small*

'A new era ... or the end of all eras'

Mexico's President presents his energy proposal to the U.N.

In a Sept. 2 address to the United Nations, Mexican President Jose Lopez Portillo described the current period as a "watershed" between two energy areas—which if not successfully traversed would mean the "end of all eras." The speech itself marked a watershed in the vital international debate over energy.

For the first time ever, a head of state stood before the only universal forum of nations to propose an equally universal approach to solving the energy needs of humanity. With the groundwork carefully prepared through more than a year of worldwide consultations, the presentation held center stage in a packed UN agenda, and evoked the strongest applause of any address so far in the session.

His central thesis: The world collectively must immediately develop energy strategies that will guarantee alternative energy sources for all nations equally by the end of the century. The Mexican president outlined a series of immediate steps, centered on the United Nations, to move toward this goal (see box).

In its very obviousness and clarity, the proposal revolutionizes the terms of debate. Ruled out from the start are the suppositions which have made U.S. energy policy a national disgrace and a grave threat to world peace: that the United States must fight for dwindling energy supplies against other nations of the globe and prepare for military intervention, particularly against OPEC. These "partial, bloc, or unilateral" solutions, Lopez Portillo uncompromisingly condemns. Ruled out in the same fashion is any trace of zero growth doctrine, of limits to energy, of limits to growth. "The problem is neither one of prices nor of scarcity," he told the Latin American delegations after the speech; it is one of a "transition" to be safely made through a triumphant demonstration of the human capacity for reason.

Over and over he sounded the theme, Does the world, does the U.S., have the political will to truly make energy the common responsibility of mankind?

Below is the official translation of the Sept. 27 Lopez Portillo energy address, which was blacked out by such media "of record" as the *New York Times* and *Washington Post*.

Honorable General Assembly:

I have said on another occasion that in this world of inequalities and contrasts, North-South and East-West tensions and pressures are crucifying a substantial portion of mankind.

In 1973, the disorder of the world economy culminated dramatically in the conflicts marking the availability and real price of hydrocarbons, which in turn had a direct or indirect effect on that long-standing disorder by giving rise to generalized energy problems and thereby affecting the well-being, the development prospects, the standard of living and even the very survival of nations.

For seven thousand years our peoples have inhabited this Earth, and throughout our existence our history has been marked by the search for a common denominator that would identify, bind and unite us all.

Our present circumstances seem to indicate that that unifying element, incumbent on us all, may well be the lack of energy sources.

The energy crisis exists; it is an actual fact. We are witnesses to an obligatory transition period in the world energy situation. We can be authors of that change, and channel it, or we can be simple spectators, and become its victims.

Unless we make a timely effort to define our reality

as the problem it is, the transition could become a conflagration, perhaps the most violent in all history.

Beginning during the final third of this 20th Century, it is a transformation whose duration, scope and consequences have yet to make themselves known. As a result, the cost of adjusting our economy, science, techniques and political determination will be high.

Let us be fully conscious of this in order to understand what is happening. Within a few decades, the age of petroleum as a major basic fuel will come to an end. We have reached a watershed between two different eras in the life of mankind.

We are the protagonists in that mutation process, which involves both danger and opportunity. That is why we speak of crisis, and not yet of catastrophe.

It may be the beginning of a new era. It may be the end of them all.

If we are to set our course, find our stroke and move ahead, the truly important thing is to seek not culprits, but responsible men; not to accuse, but to explain; not to vanquish, but to convince.

Let us develop a consciousness that is based on rational thought, the gift that is ours alone among all Earth's species. Of them all, we are the only beings capable of programming and premeditating our actions. Let us use those abilities to overcome instincts, fear and mistrust, and turn them into determination and reason.

Paradoxically, advances in knowledge and ways of doing things are sometimes dehumanizing, and do not always contribute to civilization. Zones or groups appear in which simple realities become vital ones, and even the powerful countries run the risk of relapsing into underdevelopment.

Energy has now enabled us to travel at supersonic speeds and to receive communications at the speed of light.

Dramatic dualism

Thus, we have shortened distances and accelerated time; but also, where many people today are concerned, we have halted the course of historical time and broadened social gaps. There is a dramatic dualism between our conquering space and reaching other planets and the continued existence, on our own, of Stone Age hunger and insecurity; on the one hand, we see what we can be, and on the other, what we really are. Overcoming that dualism is a basic imperative of justice, and will be feasible if we prove ourselves capable of making reasonable use of the opportunity offered us by the existence of a nonrenewable resource while it still lasts.

Let us base our relations on what we have in common, and use the differences among us to enrich our analysis. Let us make those relations lasting by basing them on mutual benefit and reciprocal respect. Let us shape our behavior to the circumstances involved. We cannot extend equal treatment to those who are in unequal conditions. Let us treat others as we would be treated ourselves.

No country on Earth is entirely self-sufficient. We all have need of the others.

The surplus earnings of wealthy, industrialized or petroleum-producing countries become the deficits of the weaker economies, and sooner or later have a backlash and damaging effect on their own cause.

We may distinguish five basic types of conditions as a means of grouping the different countries;

Those which are large-scale producers and at the same time exporters of petroleum, almost all of them developing nations.

Those which are producers and importers, and have attained a high or medium level of economic development that provides them with the resources they must have to cover their remaining needs, in spite of price rises.

Those with a relatively low level of development which produce, but must also import, and to do so confront the difficulties involved in acquiring foreign petroleum without cancelling economic and social projects of national benefit.

The specifics at a glance

Proposing the "adoption of a world energy plan" in the final section of the speech, Lopez Portillo called for a United Nations "working group" to "prepare documents and specific proposals." The Working Group would include countries drawn from major oil exporting nations, industrialized-nation importers, and Third World importing nations. It would be responsible for drafting programs to:

- Guarantee full sovereignty of individual nations;
- Increase exploitation of both conventional and nonconventional sources of energy;
- Establish the means for national energy programs to be compatible with the world plan;
- Promote developing sector industries of importance for energy production, particularly capital goods;
- Set up short-term financing for relief of poorer, importing nations;
- Establish new funds for financing and transfer of technology, and programs for manpower training;
- Establish an International Energy Institute to collect statistics and evaluate new technologies.

Those which are importers only, have attained high or medium levels of development, and have been able to adjust their growth to their energy needs.

And those which are not only exclusively importers but are also underdeveloped, and must therefore make enormous sacrifices, even where essential national projects are involved, to obtain the petroleum and petroleum derivatives they need.

From another point of view, it should also be remembered that the industrialized, market-economy countries absorb 60% of all the energy produced in the world. With less than one-fifth of the world's population, they consume two out of every three barrels of petroleum produced.

In that context, we might ask ourselves the following questions:

—How much longer will we be able to keep the world moving at its present rate with our available sources of energy? At what cost? To what end? And for whose benefit?

—How and when can we and must we find substitutes for our present sources of energy?

I prefer not to mention the ideological or political aspects which would add to the complexity of approaches to the problem. I want to speak only of the facts, to say things that have been said before—things that, in one way or another, everyone thinks or knows. I trust I will be saying nothing new. It would be grave indeed if at this point in the crisis there were still something new to be said.

Race against time

We must race against time to find new solutions before our present sources run out. Let us place a proper value on what we have, before we lose it.

An extravagant and wasteful use of petroleum has been made in the decades when its price was low; it was only when prices were raised in order to revalue this resource that efforts to develop alternate sources began. For the most part, it has been used as a fuel. That period will be branded with the stigma of folly, for having burned petroleum that could have been turned into foodstuffs and petrochemical products of prodigious benefit to the whole of mankind.

We have turned the petroleum industry into a gigantic mechanism for producing profits and tax revenue to meet urgent short-term needs.

We had forgotten the importance of the future, which, in recent years, has become a drastic present. What is in short supply becomes expensive. What, then, is the price of a commodity whose supply is running out? What is the price of that which no longer exists?

The countries that produce petroleum—a nonrenewable resource, and one that for many countries represents the sole resource provided them by nature—want to invest in ways that will permanently ensure their future. Now organized, they are for the first time successfully defending and revaluing a raw material. They attribute the escalation of prices to monetary and trade disorders and to the ensuing devaluation of foreign exchange, and refuse to discuss oil prices alone, outside the context of a complete new international order.

The industrialized countries feel they are being victimized by the petroleum-producing countries, whom they accuse of being responsible for inflation and recession; they collectively follow a system of circumstantial and therefore fleeting rationalization; they draft unilateral policies designed to reduce their dependence and consumerism, and they insist on discussing the price of crude oil exclusively without considering other questions of vital importance to all.

The poor countries—those without oil, dependent, coerced, and sometimes anguished; those without the ability of the wealthy countries to transfer the impact of oil prices to their exports, since these consist solely of underpriced raw materials—are forced to import everything, from energy to inflation and recession. They see with despair that despite the noble and singular,

'Oil isn't sugar,' Mexico tells Latin delegation

In the months preceding the formal presentation of the energy proposal at the UN, Mexico conducted one of its most intensive diplomatic efforts of the post-war era, soliciting suggestions, reactions and support for the conception. Among the nations declaring favorably were France, West Germany, Cuba, Saudi Arabia, Bulgaria and the Soviet Union.

Perhaps the region of Mexico's greatest diplomatic effort—and the region pledging greatest support as a bloc—was Latin America. In response to the Mexican efforts, the Latin American Energy Organization (OLADE) declared its support for "making energy the common responsibility of mankind" in the Declaration of San Jose, the document which emerged from the organization's June meeting in Costa Rica.

At the United Nations, Mexico's new ambassador, Porfirio Munoz Ledo, held extended discussions with the Latin American group in the weeks just prior to Lopez Portillo's arrival. Immediately after addressing the General Assembly, Lopez Portillo addressed the Latin American delegations. In the following excerpts

from these remarks, the President explains why he proposes constructing a new framework for energy discussion first, and then turns to the specific forms of energy to be considered within that framework.

...In order to advance the process of giving content to the economic rights and duties of nations, we must understand that the present conflict between the industrial countries and the producers and exporters of oil is not a problem of principles, but of method; it is a problem of strategy, that is, the directing of our forces up to the field where the decisions must be made....

Gentlemen, we must understand that the purpose of our efforts is to solve a problem of transition—definitely *not* one of prices or scarcity. It is a problem of transition, to take advantage of these decades to move from one energy stage to another. That must be the objective of our analysis and our decisions. If we share that understanding, we can put the world in order, take advantage to the maximum possible of what is going to run out—oil—and prepare for the coming of other new sources. These are in sight but we haven't resolved to use them because we are supposing that hydrocarbons are the problem. No, gentlemen: the problem lies in understanding the two stages of humanity which it is our destiny to witness. We are protagonists. We can be mere actors or we can be authors. And this is a problem of political will.

I've tried to speak today to the political will of the world so that, once we understand the problem as a methodological one, and not of conflicting principles, once we understand that the solution is strategic and not tactical ... order will have to come.

...If we fail to understand energy sources not only as raw materials, but also as today's motor, our proposals will miss the mark. Oil is not sugar; oil is not coffee; oil is not cotton. Oil is an energy source which is moving the world. If we solve the problem of energy in the transition between two stages, I am absolutely certain that we will have agreed on a more just order and that this will be the path to peace, which is not an abstraction, but rather a concrete problem which demands concrete solutions linked fundamentally at this moment with the energy problem.

Gentlemen, I believe this fully justifies the contemporary history of Latin America, which is fighting glorious battles. And I am proud, gentlemen, of belonging to this generation of Latin Americans, conscious of the crisis and capable of winning the domestic battles ... and battling internationally for decolonization. Let us come together, to the extent of our modest conceptions, to try to bring order to the world.

albeit insufficient efforts of the organized petroleum producing countries, petrodollars continue to be recycled in the powerful economies.

Positions made extreme by transnational structures

The developing world's point strategy for enhancing the value of all its raw materials runs the risk of being divided, since to date, although oil has itself been revalued, this has not served to trigger a proper revaluation of other raw materials We must take care to preserve the unity that was achieved with such difficulty.

Hydrocarbon prices cannot be considered a matter for bargaining and for a testing of strength between producers and consumers, particularly when their respective positions are made more extreme by the intervention of other, generally transnational structures, many of which no longer recognize any home country and consequently acknowledge neither social obligations nor political solidarity. Let us reconcile conscience and national values with the interests of fertile and harmonious internationalism.

Conflicts of interests among countries must be resolved not through the annihilation, but rather through the dialectical integration of such opposing interests.

What is not foreseen becomes a problem; problems that are not solved accumulate, and accumulated problems discourage evolution and foreclose possibilities of development.

'Men are dying today'

In order to avoid being overtaken by events and as a means of facing the challenges that clearly loom before us, we must not wait until crisis compels us to take hasty, piecemeal decisions and then find ourselves bound to those that outweigh the rest by reason of the force, and not the right, they represent.

Men are dying today. Let us not offer remedies for tomorrow. In the face of harsh reality, let us not propose idealized stoicism; in the face of true but difficult roads, artificial, dead-end labyrinths; in the face of concrete obstacles, would-be shortcuts; in the face of hard-to-overcome lethargy, ephemeral and selfish solutions; in the face of sound arguments, threats and lies; in the face of the power of intelligence, the brute force of

arms; nor in the face of problems shared by all, partial, bilateral or bloc solutions.

We would make little progress if we allowed ourselves to be caught up in the illusory reflections of such a mirror game.

It would be inexcusable if, in full knowledge of the trends and their implications, we were to fail to take decisions leading to appropriate solutions that will keep the threat of a bitter and conflict-ridden future from becoming an irreparable present.

We cannot openly sustain high expectations while concealing evil intentions, for to do so would be to offend justice with irrational acts that would abolish hope and dignity for many millions of human beings.

On the basis of those premises, we fully identify with the countries that are struggling to revalue their raw materials. We share the interests of the petroleum-producing countries, but we also realize that it is essential to dismantle a bogged-down system that works to the detriment of all. We are irrevocably pledged to the principles of self-determination, non-intervention, the peaceful solution of controversies, the economic rights and duties of nations and solidarity, which are the guidelines of our international conduct. That is why we want to cut this Gordian Knot.

New norms of international law needed

We know that among individuals, as among nations, respect for the rights of others is peace, just as we also know that on occasion we must take on new responsibilities so that law, respect and active peace will come again to the fore. The time has come to make new progress in establishing the norms and regulations of international law, which must no longer be merely public law but must acquire an authentically social nature.

My country, which long ago affirmed the nation's primary ownership of its land and subsoil, a principle that is embodied in our Constitution, was in 1938 the first country to nationalize its oil industry as part of its decolonization process. Today, an important potential producer of hydrocarbons, it desires solidarity with all the nations of the world, and particularly with those which are struggling for their freedom and are most needy and most deserving.

We are prepared to back these words with deeds by assuming both normative and operative obligations in efforts to bring about the advent of a new, more equitable and better-balanced world order.

With all due modesty as regards our situation and understanding, we would like to offer the following considerations:

The first problem is how to pose the problem without giving rise to suspicions of partiality, manipulation or complicity.

Defining the problem constitutes a substantial part of the solution. Nevertheless, what I am about to say is so simple that I confess it may appear, in view of the controversial situation in which we find ourselves, to be mere romantic ingenousness.

Energy sources are the shared responsibility of all mankind.

Energy sources must not be the privilege of the powerful. All abundance is relative. Such sources have a limit, and will come to an end. Moreover, they must not be used as a disturbing element to offset the insecurity of those who have no other means of ensuring their legitimate survival and self-determination.

We want to bridge the gap between extremes by making present-day petroleum supply, demand and price structures compatible with the alternatives we seek for the future.

Order—by free will or violent imposition

The order that must come about—and soon—can either come as the result of the participation of sovereign nations, of their convictions and their free will, or be violently imposed by the most powerful of those nations. And it is not impossible that it may come as the result of a stupid holocaust, which in pointless emulation of the punishment of Sisyphus, who was doomed never to finish his task, would nullify what it seeks to gain, and, to our eternal shame, would again loose the Horsemen of the Apocalypse—this time, however, riding the unleashed energy of millions of horsepower.

That is the dilemma before us and the reason for the proposal I am making here today.

The United Nations is the only rational and institutional means we have for combating political and economic hegemonies.

Only here is it possible for sovereign nations to deal with one another on an equal legal and moral footing; and only in this manner will we together be able to settle controversies and to banish abuses and prepotency, so as to develop within a framework of justice rules that, once approved by the majority, will be compulsory for all in achieving well-reasoned and effective solutions.

But this forum is criticized as if it had sprung up by spontaneous generation. It is said that it is too bureaucratic, and a frustrating quagmire, or that it is excessively politicized, and has become an instrumznt for the veto of the big powers, or for the abuses of the majority made up by the weaker nations.

Be that as it may, it is our own creation—the best that we have been able to devise. If we do not agree on its usefulness, let us change it, but not invalidate it.

We propose a formula of teamwork, aimed not at imposition or intervention, but at harmonious participation that will integrate and amplify isolated efforts.

The subject of energy has attracted and occupied the attention of this organization for several years past.

Hydrocarbons—as a catalyzing element of the economic crisis—have been a recurring theme of the debates that have revealed varying interests and opinions, good ideas and mistaken ones, and agreement and disagreement cutting across each other in all directions, whenever the subject of energy comes up.

To mention all the reports and resolutions that have been produced at different levels would take far too long. There are those who persist in thinking of energy matters in terms of the energy source involved; to split up this way into separate parts is illogical and incompatible with the interdependent nature and magnitude of the problems we face today.

On what objective criterion could the treatment of nuclear energy for peaceful purposes be based, if we fail to take the production of hydrocarbons into account? Would a conference whose purpose was the study of new renewable energy sources make sense to us if it excluded consideration of older conventional sources? Would it not be more consistent to coordinate all energy matters within one overall policy, while respecting the special characteristics of each energy source?

It does not seem justifiable, either, to allow the shortcomings and problems left over from the past, or the antagonisms of the present, to lead us to pigeonhole matters that are inseparably linked together in separate watertight compartments.

We want to make use of what is usable, capitalizing on experience and what we learn from daily life, in order to draw up a common program for the development and equitable distribution of energy resources, both present and potential. Therefore, research should be directed toward optimizing energy production and productivity, so as not to base solutions on reserves, but rather on the available potential for generating resources that a are indeed renewable and for the common good.

Linked to new world economic order

We face what appear to be fundamental problems that are really questions of form and method, of a method for reconciling divergent interests and clarifying the political will of the international community, each one of whose members must claim its its rights and agree on and carry out its mission.

We are hampered in this endeavor, on the one hand, by the inability to put together in a coherent way the different approaches to the energy problem, the most vital of all for ensuring the continuity of progress; and, on the other hand, by the difficulty of linking them to a much vaster and more complex whole; a new world economic order.

Resolving this contradiction means deciding not only what to do, but how; it means dealing simultaneously with both levels—the new international strategy for development, and the means of implementing it.

Otherwise, we would be dissociating what we want from what we do; we would be opposing principles to norms, norms to procedures, and procedures to creative action. We would be running the perilous risk of getting bogged down, of perpetuating the unjust contrasts between humiliating backwardness and dazzling progress, between a sterile existence and a decent life.

We already have economic norms and provisions that are generally accepted by the States. By basing our efforts on these norms, and thereby giving them substance, it will be possible to design an all-encompassing and balanced joint development strategy that would be based juridically on international law. If at Bretton Woods we were able to establish an orderly structure for handling monetary and reconstruction matters, we could today, in this now fully instituted forum, establish a new and more orderly structure for handling energy and resurgence.

Because of all this, I am in a position to assure you that a general debate on this subject is not only essential but possible.

Mexico's proposal

I therefore propose the adoption of a world energy plan that covers all nations, both haves and have-nots, is binding on all, and has as its fundamental objective the assurance of an orderly, progressive, integrated and just transition from one age of man's history to the next.

The plan must contain programs designed to:

• Guarantee the full and permanent sovereignty of each nation over its own natural resources.

• Rationalize the exploration, production, distribution, consumption and conservation of present-day sources of energy, particularly as regards hydrocarbons, by providing financial and technical assistance.

• Ensure and increase the systematic exploitation of potential reserves of all types, both traditional and nonconventional, which have not yet been exploited owing to lack of financing or applied research. These include the sun that heats our tropics and burns so many deserts; the water that runs uselessly down so many mountainsides, eroding the soil along its path; the ignored heat within our earth; the unused energy of the wind, and that of the sea, of the atom and of life itself.

• Make it possible for all nations to draft energy plans that are compatible with world policy, so as to ensure the consistency and effectiveness of objectives, content and instruments.

• Devise measures for the promotion in developing countries of the formation and integration of auxiliary industries in the energy field, and especially of capital goods.

• Establish a short-term system, to be put into effect immediately, for resolving the problems of developing

countries that import petroleum, which would guarantee supply and the honoring of contracts, stop speculation, provide for compensation for price increases, and even ensure considerate treatment on the part of the exporting countries.

• Set up financing and development funds, which could be made up of proportional and equitable contributions from the developed consumer countries and from producer and exporter countries, in order to meet both the long-term objectives and the urgent needs of the underdeveloped oil-importing countries.

• Institute a system for disseminating and transfering technologies, together with their respective training programs, that would include a worldwide registry of advances and follow-up in energy research and experimentation.

• Support the establishment of an international energy institute. This proposal, which coincides completely with the ideas expressed here, has already been made by the Secretary General of this organization, whom I wish to thank for his guidance in this regard.

To carry forward this world energy plan, I propose:

• The establishment of a working group, composed of representatives of the petroleum-producing countries, of industrialized countries, and of developing petroleum-importing countries, which would prepare the documents and pertinent specific proposals.

Honorable General Assembly:

In only 21 years, we shall reach the horizon of the year 2000; by then, the babies who are born today will be grown men and women. At that point, the only substitute for petroleum will still be petroleum that remains to be discovered; it will not be until the dawn of the twenty-first century that other energy sources will begin to be of real service to us. Hence the imperative need to rationalize the use of hydrocarbons and the purposes they serve.

For all this to come about, we will have to bring to the task our maximum effort, giving of the best that is within us in good faith and with intellectual honesty, imagination, constancy and determination.

May the union of our diversity give rise to the conditions for universal peace. May it be a productive peace, bringing to all the opportunity to live and earn the right to lasting happiness for ourselves and for all our children.

The challenge is for all of us, because we are all part of the problem, and therefore, we are all part of the solution as we well.

That is Mexico's proposal.

A 'happy' State Dept. to undermine proposal

In the Sept. 28-29 Carter-Lopez Portillo summit which followed the Mexican leader's speech to the United Nations, Lopez Portillo placed strong emphasis on securing American backing for the proposal. "Does the United States have the political will" to subscribe to the principles of the Mexican initiative? he asked three times during his toast at the Sept. 28 state dinner.

Carter's response was to promise to study the question. He praised the speech itself as "the best speech I have ever read."

But preceding the UN speech, State Department spokesmen privately stated that the Mexican proposal was a cause for concern to the United States. The worry they emphasized was that the proposal would be linked to the full agenda of North-South discussions—including raw materials, financing, etc.

Their fears were fully realized in the speech. Lopez Portillo emphatically declared that the energy question was inseparable from the fight for a new world economic order. Asked in a subsequent interview if his proposal conflicted with the Havana Nonaligned resolution, which called for North-South negotiations involving all development issues, the President replied, "No, on the contrary; it is totally in agreement. It did not spring from nothing, but was worked out in consultation with all of them (the Nonaligned countries). In principle there is agreement within a diversity of approaches."

A complete blackout of the UN speech in the *New York Times* and the *Washington Post* was prominently noted in Mexican press dispatches. It was clear that top policy-making circles in America did not want the U.S. public to have access to the speech.

Yet parallel with the domestic blackout, the line suddenly emerged from the State Department for foreign consumption that the U.S. was "happy" with the proposal, on the grounds that it would "separate" energy from other North-South issues.

The strategy is to give the Mexican initiative a "kiss of death" among Arab OPEC nations which view any proposal backed by the U.S. with deep suspicion. The U.S. saw a chance to foment division between moderate and more radical OPEC nations on the issue. And the U.S. sought to capitalize on a weakness in some Arab circles toward a physiocratic approach to oil—a fixation on quantities and price per se which Lopez Portillo subsumed within the tasks of moving to energy sources beyond oil.

Initial response from certain middle-level Arab diplomats attending the United Nations debate indicate that some Arab circles have indeed been taken in by the American deception.

In the following interview, a State Department official presents not only the facade of U.S. "satisfaction" with the proposal, but reveals aspects of U.S.-Venezuelan collusion to undermine the Mexican initiative within both Latin America and OPEC. U.S. concern that the Mexican proposal may lead to a major new international drive for nuclear energy is also evident.

Q: *What is the U.S. reaction to President Lopez Portillo's speech?*
A: Well, you heard what Carter said ... it was the best speech he'd ever seen.

We were basically pretty pleased; some of the problematic elements we had feared were not in here, though some specific items for the working group could cause some trouble for us.

Q: *How soon will the working group be formed?*
A: It's something we'd like to know. We don't want to go way out in front; that would kill it. A lot depends on the oil producers, how they react.

Q: *You had said in a previous conversation that one of the problematic elements was that it would be linked to restating a North-South dialogue ...*
A: Secretary Vance has already indicated that the U.S. would go along with a new North-South discussion but as part of the committee-of-the-whole discussions leading to the UN conference on this next year.

Q: *The other problematic area you had foreseen was a call for advanced consumer nations to foot the bill for new funds for technology transfers, etc.*
A: He didn't call for a fund as we were expecting. It was much more general than we had heard he might do. The phrase about proportional contributions though would have to be clarified.

Q: *Do you think the speech may have been toned down some in the last days?*
A: It's hard to say. It has been hard for us to get a handle on all the inputs. We had discussions, but Mexico was throwing out ideas and judging reactions from everyone. But I would say the speech was at least partly geared to get U.S. support, which it did. This was a diplomatic coup for Portillo.

Q: *What kind of reactions are coming from other countries?*
A: We're waiting on the OPEC countries. The unconfirmed report is that Venezuela dumped on it. It has some ideas of its own. The questions have to be worked out between Mexico and Venezuela. Venezuela has some specific things in mind which I am not at liberty to discuss. Also Venezuela is important because it is working in OPEC. [Mexico is not a member—ed.] The idea of a working group was very clever. Because it doesn't force anyone into specific commitments, it opens up room for talk.

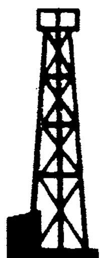
Q: *You mentioned that some of the specifics could cause some problems for the U.S. What are they?*
A: There are some things that are not very clear. It's not so much what was said, as how it might be interpreted. For instance, the apportionment of a financing mechanism, the whole section on rationalizing production, consumption and so on needs clarification. The international energy institute idea is actually old, it was originally a 1975 Kissinger proposal. We'd want to push that part of it. ... Again, there is the big question: Will OPEC go along with it?

Q: *How closely is the proposal tied to the other items on the North-South agenda?*
A: That's what remains to be seen, to what degree the working group would be linked to the general framework established by the G-77 [Group of 77 nonaligned nations—ed.]. They've indicated that progress in one area must be linked to progress in all areas. ... So that something on energy would also mean some gain in the other areas of their agenda, like financing or raw materials. We're reluctant on this, because we've made concessions already. For instance, the idea of a Common Fund. General politicization may sidetrack some good ideas in individual areas.

Q: *You have said that one good program that might be weakened by Lopez Portillo's speech was the World Bank's program for non-OPEC Third World oil programs.*
A: That's a theory of mine.

Q: *What about nuclear power?*
A: Portillo finessed the nuclear question. I imagine it will be on the agenda for the working group. It could be a problem for us. Our position is that the institutions already exist for discussing nuclear, especially the International Energy Agency. If the working group takes it, it will only further complicate the question.

Q: *The Mexicans at the Belgrade IMF meetings are pushing to reduce IMF conditionalities on lending. Now the U.S. position there is to strengthen conditionalities. This clearly is related to the kind of financing compatible with the Lopez proposal. How strongly are these things linked?*
A: I'm not familiar with the IMF issues at Belgrade. You're right, all this is linked. But the point is that, institutionally, the issues get discussed in different places, and the working group will be the place for energy.



Oil fever hits the U.S.—a new North

In recent months, there has been a sudden shift away from the pervasive doom and gloom in the U.S. media over oil shortages forecast by the Central Intelligence Agency and former Energy Secretary James Schlesinger. Suddenly the pages of the *Wall Street Journal*, the *New York Times* and the *Washington Post* have begun to report a new "oil boom" in the United States.

The major oil companies have initiated a public relations campaign to inform the American public of abundant petroleum and have, in turn, begun to make the necessary investments to exploit such petroleum resources. Similarly, the Department of Energy (DOE) since the departure of Mr. Schlesinger has changed its tune on oil supplies. At this month's World Petroleum Conference in Bucharest, Romania the DOE was cited by the *Christian Science Monitor* on Sept. 12 as having released data showing that the U.S. has a whopping 301 billion barrels of crude oil reserves, an estimate 10 times higher than traditional estimates of proven U.S. reserves.

Coinciding with such revelations is a report issued earlier this month from the Ford Foundation entitled, "The Next Twenty Years." The report which was administered by the Resources for the Future, a group heavily funded by the Rockefeller family, states that "the world is not running out of energy," but that low cost sources of oil will soon be depleted leaving only more costly oil to be exploited in the 1980's.

The Ford Foundation's assertion that the world economy must be prepared to accept escalating costs for energy including the higher costs for petroleum coincided with the major oil companies' claim to abundant oil, but at higher costs.

Both Wall Street analysts and oil industry sources concur that the crude reserves within the U.S., which comprise most of the 300 billion barrels reserve figure cited by the DOE, are much more costly to extract than oilfields currently being exploited and require a market price of at least $30 a barrel. The incentive for the companies to go for this high cost oil came earlier this year with the 50 percent oil price rise by the cartel, OPEC, and the concomitant decision by the Carter administration to begin decontrolling the price, allowing certain categories of U.S. crude to raise to the world price, i.e., the new OPEC price ceiling of $23.50. According to a Midwest oil industry source, the price of stripper crude (produced from fields that yield 11 barrels or less a day) has risen to as high as $30 a barrel as a result of decontrol. Approximately 20 percent of U.S. production, between 1.5 and 2 million barrels a day, comes from stripper wells.

The North Sea model

The current oil boom in the United States bears a striking resemblance to that process which allowed for the development of the North Sea. Numerous inside sources in the oil industry admit that the North Sea and the North Slope in Alaska, both controlled by British interests, were only made "economical" following the massive increase in the world market price of crude as a result of the fourfold price hike by OPEC in 1974. Both areas required massive capital investment to bring them on line. Historically, projections of oil reserves by government and private concerns have been political numbers games, predicated upon oil market manipulation by the most powerful multinational companies to force higher prices and make more expensive extraction costs "economical."

As the current energy situation within the U.S. demonstrates, sources of energy which in the long term could cheapen the social cost of energy such as nuclear fission and fusion are eliminated from the array of options which comprise a national energy policy by special interest groups, such as the environmentalists, which this publication has shown to be tied into the financial powers running the major oil companies.

The report from the Ford Foundation, which speaks for the major oil companies and the so-called Eastern Establishment elites within the United States is blunt: the rising costs of energy will cause a downturn in national productivity and a possible decline in the real wages of American workers, not to mention the effects

Sea swindle?

of a $30 a barrel price on the rate of inflation in the U.S.

Hence, as the major oil companies' quarterly profit figures continue to show record increases, the rate of inflation and national debt of the nation's economy continues to worsen.

Oil rush West

The Southwest has become the center of what New York investment analysts call the new "oil fever" for the U.S. According to one such analyst, oil company stocks are climbing in anticipation of major new finds particularly centered in the region known as the Overthrust Belt which runs from the Canadian border through Idaho, Utah, Wyoming, and Montana. According to the Aug. 27 *Wall Street Journal*, the "boom" began in the Overthrust Belt in 1975 with the first major strike made by the American Quasar Company. It is by no means a coincidence that the first strike occurred following the fourfold OPEC oil price hike.

According to the Denver-based Rocky Mountain Oil and Gas Association, since as early as 1920 the major oil companies were aware of the oil and gas producing potentialities of the Overthrust Belt. But, at that time, the technological demands of exploring in geologically difficult areas where reserves were expected to exist under complex sediment and at great depths made the area economically unattractive. It was only in the late 1960s that the Atlantic Richfield Company began exploration in the area, at a time when OPEC began to implement periodic price increases following the takeover of Libya by Muamar Qadaffi, a price hawk within OPEC.

According to oilmen with onsite experience within the Overthrust Belt, drilling there is "very risky" and expensive and, within the Northern sections of the belt in Idaho, "horrendous," given the bitter weather and rugged geological conditions. Nonetheless, Amoco intends to drill in Idaho at a cost of $10 million a well.

Not coincidentally, just at the time when the region is becoming increasingly attractive to the major oil companies, the Forest Service, which with the Interior Department controls sizeable chunks of the land in the region, has granted 4.9 million acres of land to the companies for exploration. The September issue of the *Colorado Business Magazine* reports that Standard of Indiana, a subsidiary of Amoco, controls over 90 percent of the private land and public leased land under exploration and has "farmed out" the land to smaller independents who do the exploring.

According to the Rocky Mountain Oil and Gas Association, there may well be as much as 26 billion barrels of oil under the Overthrust Belt and comparatively much more natural gas. But, as with much of the regions now slated for exploration, the drilling is deep and expensive.

The International Petroleum Exhibition just held in Tulsa, Oklahoma featured new technologies in deep drilling to depths of 20,000 to 30,000 feet—depths which the accompanying chart shows can cost $2 to 3 million a hole.

The other onshore "boom" area within continental U.S. is north of Los Angeles, the Kern County oil producing region. Kern County is now producing quantities of extremely heavy (high sulphur) oil with Getty and Amoco the leading producers in the region. The recent decision by the Carter administration to decontrol the price of heavy crude (under 16 gravity) was a major victory for oil companies exploring in Kern County. Reports the *Washington Post*, Kern County will

August 1979 quotes on new mechanical land rigs

Depth rating	Cost ($ million)
7,000 ft.	2.3
10,000 ft.	3.4
12,000 ft.	3.6
16,000 ft.	4.2
20,000 ft.	4.6
25,000 ft.	5.2

Offshore rigs have had similar cost run ups

Water depth	Type	Cost ($ million)
200 ft.	Jack Up	24
300 ft.	Jack Up	30
1,000 ft.	Semi	55

Source: *Oil and Gas Journal*, Sept. 24, 1979

now profit even more from the administration's decision. Commensurate with Carter's decontrol decision, the DOE has initiated a study to convert U.S. oil refinery capacity to take more heavy oil.

Like the Overthrust region, however, the costs of extraction are high. Oil companies with the capital must invest in expensive steam injection systems to loosen the heavy sludgelike crude and force it out of the ground. The companies must also add expensive scrubbers to their pumps to meet environmental standards. With the decontrol, heavy crude can now be marketed at $15.00 a barrel and California lobbyists are calling on Carter to extend his decontrol to heavy oil up to 20 gravity weight.

Shell Oil (69 percent owned by Royal Dutch Shell) just bought the Belridge Oil Co. of California for a record $3.6 billion following bids of up to $2 billion by Texaco. The tiny Belridge Co. reportedly owns massive reserves of California heavy oil.

Numerous industry sources anticipate that by 1980 the controversial Santa Barbara Channel offshore oilfields in southern California may be actively explored once a jurisdictional dispute between the Interior Department and the Department of Energy over the area is resolved. Again there are reportedly abundant reserves in the area where Exxon holds major fields, but exploitation requires deep water drilling which runs into the millions of dollars. Recently, the Britain-based Imperial Chemical Company and Standard of California made record bids for leases for offshore channel oilfields, an indication that the area may soon come under active exploitation.

Other areas slated for future exploitation are the Beaufort Sea off the Alaskan peninsula, the Baltimore Canyon off the Northeast coast, and the eastern section of the Gulf of Mexico, all requiring major capital investments. The outer continental shelf was also proposed as an area for exploration in a recent Atlanta Energy Seminar called by Carter. Costs of drilling in the shelf were estimated to go as high as $15 million a hole!

The dramatic climb in the cost of rigs over the last decade only further increases the costs of drilling. According to the *Oil and Gas Journal*, rigs that cost a few hundred thousand dollars at the beginning of this decade may now cost as high as $3 million. An offshore jackup which cost $5 million now costs as much as $25 million. Said one New Mexico independent oilman, numerous pieces of legislation which have hampered domestic production in favor of imported oil, and the astronomical price hikes in drilling costs are forcing many smaller producers to the brink of bankruptcy. "Only larger integrated oil companies with refining, transport and marketing systems have the massive profit margin needed to invest in exploration in areas like Overthrust or offshore in the U.S.," he said.

Government complicity

The pattern of legislation and proposals within the Congress demonstrates their complicity with the major oil companies to make investments in high cost U.S. exploration profitable. This is occurring at a time when the Senate is taking President Carter's synthetic fuel program apart bit by bit.

Only last week the Senate Finance Committee, considered to be stacked with "pro-oil company" senators, passed an amendment by which all new oil discovered since 1978 would be exempt from the controversial windfall profits tax which Carter proposed be applied to the profits domestic producers would make from decontrol. By making new oil exempt, "Carter has thrown a big cookie to the oil companies who are able and ready to step up exploration in untouched areas within the U.S.," said a New York oil analyst. At the same time, the Finance Committee has proposed an additional $1 billion tax on "old oil" discovered prior to 1978. Both recommendations conform to the Ford Foundation report.

Moreover, the Senate Finance Committee this week voted to exempt the first 1,000 barrels a day from stripper wells from the windfall profits tax. The combination of these two recommendations from the Senate Finance Committee will tax the middle size independent oil producer out of existence. Moreover, smaller stripper producers, said one independent oil man, are being told bluntly that "he will always be a little guy ... if a smaller producer grows then anything he produces over 1,000 barrels a day will be taxed to hell." If the influential Senate Finance Committee's recommendation passes the Congress and becomes law, it will give the major oil companies a highly lucrative market position within the U.S.

The same oilman noted: "the multis will have all the incentives they need to take over the U.S. oil industry. If you consider the impact the higher costs of oil will have on inflation, which has hit the smaller producers quite hard, in the next few years the costs of drilling holes will probably have doubled again. This will drive even the smaller producers out of business who are already having trouble getting the needed capital to continue exploration."

The big question in examining the future of the U.S. economy under these circumstances is whether or not the multis will even find adequate oil and bring it on line quickly enough to meet U.S. consumption needs. A Washington-based oil industry expert thinks the "oil rush" is blown out of proportion in terms of its future yield to the domestic economy. But one thing can be stated for certain, if the present course of events continues it will give the multinational oil companies the legal and corporate leverage to take over the U.S. energy business lock, stock, and barrel.

—Judith Wyer

Plenty of 'cheap' oil in the United States?

The U.S., which is now being subjected to a rigged "oil shortage" could be exploring and producing 100 to 250 billion barrels of oil. That oil lies untapped under the ground and could in combination with Arab-African imports provide the U.S. with sufficient oil until nuclear fission and fusion technologies are fully exploited in the 1990s.

This statement flies in the face of what the New York Council on Foreign Relations and the Seven Sister oil multi's would have conditioned you to believe. They rigged the energy crisis environment and are using it to institute a planned shrinkage of the U.S. economy. According to these sources, the U.S. only has 50 to 100 billion barrels of cheaply accessible reserves. They say the more abundant "hard to get at " reserves can be developed only at the exorbitant price of $30 to $40 per barrel—a price that will wreck the U.S. economy.

The actual amount of oil that exists to be developed cannot be exactly known, for reasons that will be explained below. The oil and exploration companies that hold much of the onshore and offshore land-leases or who can afford government land leases have a policy of withholding data about the size of reserves.

Within the U.S. oil industry, there is a disagreement over how much oil is extractable by conventional means. The debate is often shaped by the market position of a particular company. Occidental Oil Company executive L.F. Ivanhoe is quoted in the Oil and Gas Journal, Aug. 27, refuting claims made by such companies as Cities Services that there is abundant domestic oil to be found albeit at very high prices. Occidental was motivated by its major domestic investment in nonconventional tar sands oil.

Where is the oil?

Oil supplies are distributed both on- and off-shore throughout the U.S. According to the Dallas-based Pitts Energy Group, "98 percent of the prospective sediments in the U.S. are untouched by drilling." Another New Mexico-based oil explorer reported "probably 90 percent of all the oil in the U.S. is not developed."

Some of this oil, such as in the Wyoming-New Mexico-Utah Overthrust Belt would be too costly, perhaps, to develop. But much of the oil in the South-Far West is still available through primary recovery methods as is off-shore oil.

This oil can be developed at a cost far less than is publicly quoted. First, in 1967, official government sources placed the cost of producing a barrel of Saudi crude at 26 cents. Saudi Oil Minister Yamani, on a trip to the U.S. this year, stated that the cost of Saudi oil production is now 40 cents per barrel. The majority of production costs are for the exploration and the capital costs of starting up. Operating costs are minimal.

So why does oil production cost so much? U.S. oil production must exploit less accessible oil basins, thus costing more for production. This is important, but marginal. The culprit is the leasing of rigs and other exploration equipment, whose interest costs are paid twice. First there is the cost that must be borne by rig constructors in interest payments to the banks. Second is the cost of rig-leasing by the prospective driller. The rig-leasing is often done by the large New York City and Dallas banks, which charge exhorbitant rental fees.

The New York banks moved in right after the Oct., 1973 "oil war" to push oil equipment costs through the roof. According to Offshore Rig Data Services, the costs of offshore drilling equipment—since 1973 the biggest area of demand—have risen as follows.

The cost of a semi-submersible rig in 1960 was $8.7 million; in 1975, $37.3 million. The cost of an average drill ship in 1960 was $5.6 million; in 1975, $32.3 million. The cost of an average jack-up rig in 1960 was $5.2 million; in 1975, $21.7 million.

These figures reflect a burst of speculation in offshore equipment that began with the introduction of federal guarantees for 85 percent of the loans to drilling contractors, and peaked in 1974.

During the 1960s, production and exploration costs were normally on a par basis with each other. Now exploration costs are double production costs, making exploration, the first step in oil development, prohibitive.

However, the problem only begins with the rig and other equipment costs. Following major pushes in the 1960s, by among others Alfred Kahn and the Kennedy liberals, the Tax Reduction Act of 1975 was passed, by which Congress placed limits on the amount which smaller companies could claim for oil depletion allowances and phased down the oil depletion rate to 15 percent, wile for big firms, eliminated the allowance altogether. In fact, it was the Aspen Institute-run ARCO, whose chairman Robert O. Anderson first voluntarily got rid of the oil depletion allowance in 1973, which

cleared the way for the law phasing it down two years later.

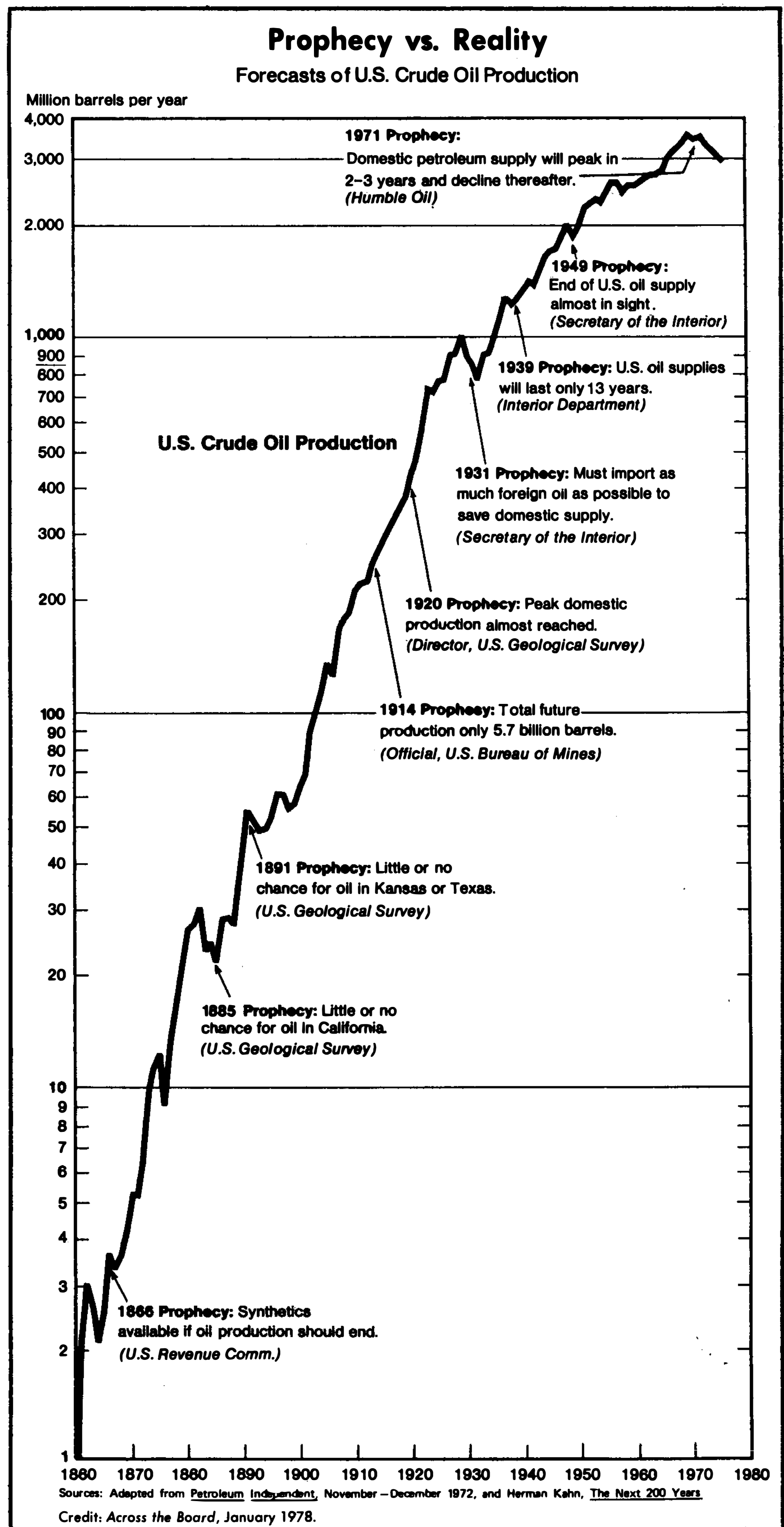
The effect was to undo a tax which cost the government nothing and had actually increased revenues while forcing oil independents to adopt the deregulation-of-oil line as the only means by which they could recoup enough funds to maintain exploration. On top of this, environmentalist restrictions have crippled land usage and a 1977 law has made it doubly hard for independents to secure bank loans, while loading on new taxes.

Into this situation throw the multinationals' control of most of the reserves. The top eight companies operating in the U.S.—Exxon, Texaco, Gulf, SoCal, Standard (Indiana), ARCO, Shell, and Mobil control 64.0 percent of onshore reserves. They also own 64.5 percent of the leases for land in the Federal Gulf of Mexico and the Louisiana Outer Continental Shelf. The lesser majors—like the Lazard Freres-owned Ashland Oil—own another 20.3 percent, giving the top oil multi's 84.8 percent of U.S. Gulf oil leases. Moreover, due to changes in leasing law—by which companies must now pay royalties upfront, instead of over years as a percentage of profits—the big oil companies which can afford big royalty payments are favored to accumulate bigger reserves.

With the small-to-medium-sized independents pushed out, all the giant multinationals have to do to get a "shortage" is say that the productive drilled holes are dry or deliberately drill dry holes.

Those who say that the major multinational oil companies wouldn't do this, don't know history. The Exxon-British Petroleum-Shell-dominated Iraq Petroleum Consortium drilled dry holes for 30 years in Iraq-Syria, as recorded in written IPC memos since brought to light. The multi's also wrote off the East Texas-Oklahoma region where independents, not listening to the majors' dire warnings, found the biggest oil finds ever recorded in the U.S. (see chart.)

—Richard Freeman



Sources: Adapted from Petroleum Independent, November–December 1972, and Herman Kahn, The Next 200 Years

Credit: *Across the Board*, January 1978.

Iran is the trigger on the oil weapon

One of the justifications for a U.S. energy policy based on high cost domestic energy sources is the much lamented "instability" of the oil-rich Persian Gulf region, particularly since the Iranian Islamic Revolution. What is not revealed and which insiders in the British, Israeli, and American intelligence know is that the major oil companies like British Petroleum and Royal Dutch Shell were complicit in the overthrow of the Shah of Iran and the ensuring oil crisis, a fact this magazine reported exclusively.

It was as a result of the Iranian oil shutdown on Dec. 26, 1978 that the so-called oil crisis of 1979 was triggered. It was not a "natural " crisis, but rigged and managed by London and Washington through the Seven Sisters multinational cartel. At present, there is evidence that the troubled Islamic regime in Iran may again trigger another sizeable OPEC price hike at the December 1979 price-setting parley.

Production plunge

In recent weeks there has been a slow, but steady decline in Iran's average 4 million barrel a day (mbd) output to a level just over 3 mbd. For this reason, the Saudi government announced last month that it would maintain its 9.5 mbd production level, one mbd over the official production ceiling. Similarly, Kuwait and Iraq have stepped up output along in order to more than meet world demand and keep the speculative oil spot markets relatively soft. The Saudis and the United Arab Emirates have announced they do not want to see another OPEC price rise for 1980.

Whether or not they can enforce a freeze will depend on the OPEC producers pushing a price hike, notably Libya and Algeria. Both have ideological connections to the Islamic fundamentalist regime of Iran's Ayatollah Khomeini. The *Baltimore Sun* reports that at an ongoing economic policy seminar in Teheran, a proposal to

Ford Foundation: get ready for high prices

Last month, the Ford Foundation released a 600-page report entitled "Energy: The Next Twenty Years." The report, administered by the Resources of the Future group, is a carefully written document backing the position that higher energy costs are the only solution to the energy crisis. The Resources for the Future was founded and funded by the controlling interests of the multinational oil companies, notably the Rockefeller Brothers Fund, and Rockefeller University. On its board are such notables as Laurance Rockefeller.

Following are excerpts of that report which also endorses a commensurate recessionary policy for the U.S. economy which, the Foundation report states, must be crisis "managed" by the government.

... The world oil price in the year 2000 could well be anywhere from $20 to $50 a barrel (1979 dollars). Whatever the world price is by the end of the century, it will not increase smoothly. It is more likely to remain constant or even decline in real terms for a few years (as it did from 1974 to 1978), then increase 25 percent (up to 35 percent, including inflation) or more in one year; even an increase as great as 50 percent in real terms over a short period cannot be ruled out, followed by a period of stability.

... The economic impact of real energy cost increases of this magnitude will not be pleasant. Higher real costs mean that real incomes are lower than they otherwise would be, even if the economy adjusts without unemployment and recession; the same amount of effort will simply yield less end products and services. ...

... Jobs could continue to be created, albeit at lower real wages than otherwise, to absorb a growing labor force. Furthermore, the cost impact can be reduced by responding to higher energy costs in ways other than simply paying more for the same amount—that is, by energy conservation. There is no denying that, at best, higher energy costs will hurt; but if their impact is managed without adding self-inflicted wounds, the injury need not be seriously disabling.

lower oil exports coupled with higher prices beyond the OPEC ceiling of $23.50 is being weighed.

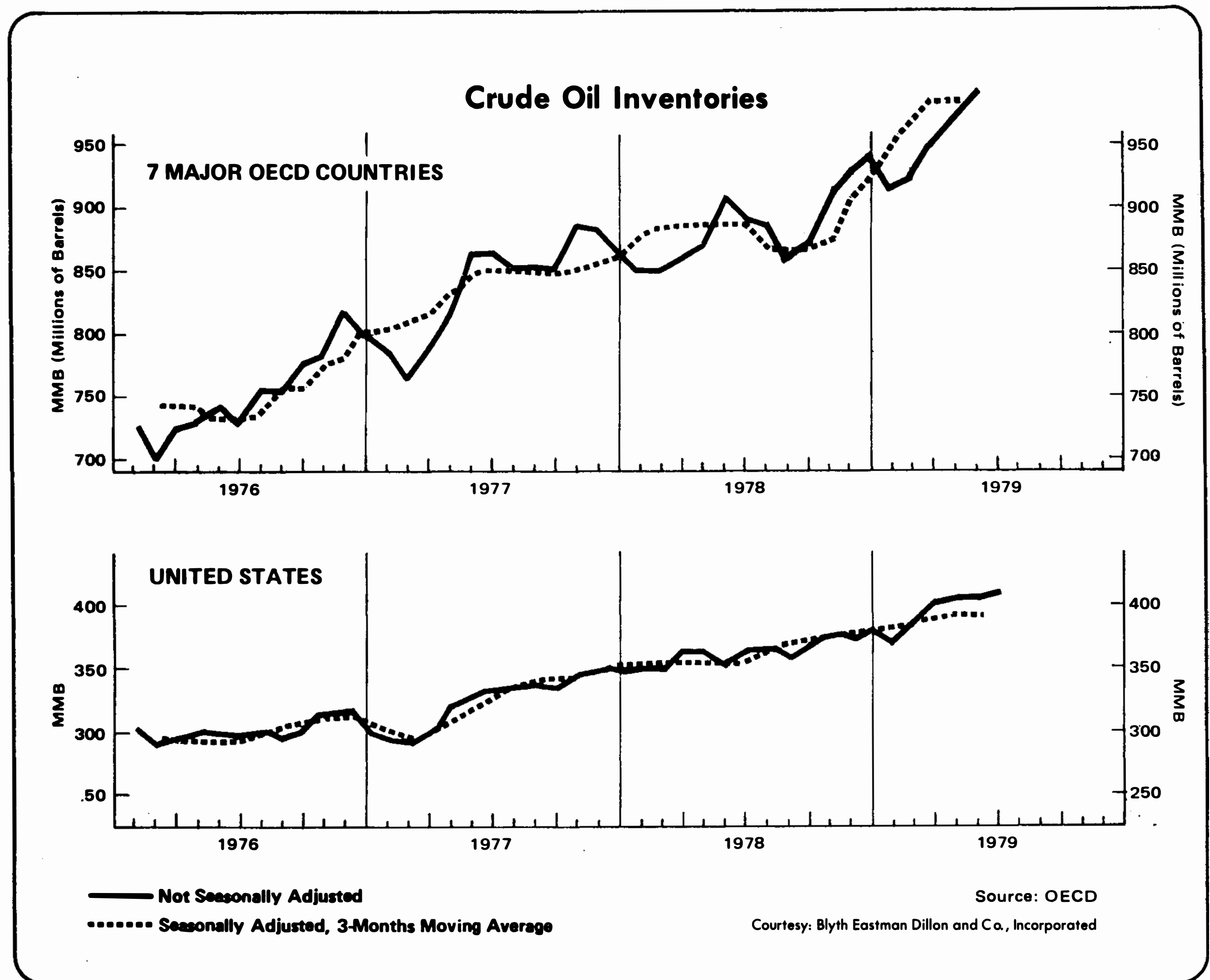
Japanese sources reveal Iran is making selective spot sales to crude-hungry companies now building oil stockpiles with as much as a $13.50 premium attached on the $23.50 figure.

Since the purge last week of the moderate head of the National Iranian Oil Company, Hassan Nazih, by Khomeini's Revolutionary Council, a limited walkout has begun of NIOC technicians and bureaucrats which has reportedly fed into the declining output trend.

As petroleum demand increases with winter approaching, a further decline of Iranian exports could tighten world oil markets, even with expanded output from Kuwait, Iraq and Saudi Arabia, and force an upturn in the price of crude sold on the controversial Rotterdam spot market. In early 1979, the dramatic price spiral of speculative across-the-counter (spot market) purchases of crude and petroleum product cargoes provoked the price hawks in OPEC to retaliate, winning a 50 percent price increase despite the resistance of the Saudis.

According to *Petroleum Intelligence Weekly*, the spot price for crude has again turned upward fetching as high as $38 a barrel for light crude. Following Nazih's ouster, the oil companies have begun escalating their purchases in anticipation of a possible drastic reduction or halt of Iran's exports. And again the Carter administration is giving incentives to the oil companies to purchase costly Rotterdam spot petroleum by extending the $5 a barrel entitlement (subsidy) to companies which purchase abroad on the spot market.

As the accompanying chart demonstrates, the rate of stockpiling both by governments and the oil company has reached record proportions in recent months. There is widespread anxiety that another "oil shock" may soon hit the world economy and with it another price hike.



China and the State Department are still fighting the Vietnam War

In January of this year, Chinese strongman Deng Xiaoping made his much publicized visit to the United States. Immediately after his return, in February, the Chinese sent hundreds of thousands of troops into an invasion of Vietnam which resulted in a Chinese defeat. Late last month, Vice-President Walter Mondale went to Peking for talks with Deng and others, leaving amid reports that Deng told him of China's readiness to "teach a second lesson" to Vietnam.

Now the Chinese are preparing to invade Vietnam again. The only difference between February and today is that the collusion between the Carter Administration and the Peking regime is completely out in the open.

The prospect of a Chinese invasion which could rapidly bring the world to the brink of nuclear confrontation is highly visible in the coordinated propaganda campaign of the U.S. State Department and the Peking regime around the situation in Kampuchea (Cambodia). With one voice, Washington and Peking have charged the Vietnamese with conducting a "new offensive" inside Kampuchea against what they describe as "20,000-30,000 troops" of the deposed Pol Pot regime. China, meanwhile, is painted as the heroic defender of Kampuchea's national sovereignty.

Vietnamese officials emphasize that the border with China is growing increasingly tense. The head of Hanoi's delegation to the United Nations, Deputy Foreign Minister Phan Hien, last week told reporters at the United Nations that the Chinese-U.S. charges of a "new offensive" are intended "only to mask aggression that is being prepared from the north (China) against Vietnam." He claimed the Chinese are massing troops on their northern frontier—some 12 divisions and 5 army corps—plus deployments of naval units off the Chinese island of Hainan, and including massing of troops on the border of Laos, Vietnam's neighbor to the west.

Phan Hien's charges were backed up by the Helsinki-based World Peace Council, which charged last week that the Chinese had massed up to 500,000 troops on the border.

Informed sources have reported that the Chinese military mobilization against Vietnam was timed to coincide with the decision by the United Nations General Assembly two weeks ago to seat the genocidal Pol Pot regime as the "legitimate representative" of Kampuchea. During Vice President Mondale's trip to Peking, the two governments are thought to have concluded that a UN decision favoring Pol Pot would likely ensure a docile world reaction to any new Chinese invasion. This planning, based on secret agreement between Washington and Peking dating from the Kissinger-Chou En-lai era, is designed to weaken independent Vietnam, and to strengthen China's influence in Asia as a "strategic counterweight" to the Soviet Union.

State of propaganda

Word of a Vietnamese "offensive" began to surface last week, when Secretary of State Cyrus Vance spoke at the UN, and his Assistant for Asia, Richard Holbrooke, testified on Capitol Hill.

Holbrooke, speaking before the Senate Foreign Relations subcommittee on Asia, stated that as many as 180,000 Vietnamese troops were involved in an "offensive" against 20,000-30,000 armed Pol Pot forces—an "offensive" he claimed was creating "the most dangerous" threat to stability in Asia in years. Not only will the "offensive" create military tension, he said, but it will also cause an additional 200,000 Kampuchean refugees into volatile Thailand.

Just one day before, Vance attacked the Vietnam "offensive" before the General Assembly, saying it was greatly "complicating" efforts to bring about a compromise between Pol Pot—who systematically murdered at least 3 million people during his Chinese-sponsored reign of terror—and the Vietnam-allied government now in Phnom Penh led by Heng Samrin.

Numerous independent observers, including recent visitors to Kampuchea, have scoffed at the State Department claim that 20,000-30,000 troops are fighting under Pol Pot. At most, several thousand youth are thought to remain in his control, mostly in the mountains in southwest Kampuchea or in sanctuaries in Thailand.

Today, the Washington Post provided some insight into how these few thousand "troops" remain under Pol Pot's control. Noting that the monsoon season, food shortages, and Vietnamese police actions have all but defeated Pol Pot, the Post reported that those "fighting"

under Pol Pot are receiving twice the meager rice rations civilians receive. Pol Pot has ordered the clubbing to death of any soldier or civilian who tries to flee. As when he was in power, bullets are not used in executions so as to reserve ammunition.

Joining the myth of a Vietnamese "offensive" has been a second circulated myth: Vietnam is blocking food aid to Kampuchea.

It is to be emphasized that a dire food and medical crisis exists in that country. Nearly all of the estimated 3.5-4 million survivors in Kampuchea are known to face possible death through starvation and related diseases. Fully 80 percent of the children are suffering from advanced stages of starvation. There can be no doubt where the blame lies for this situation: Pol Pot and his Peking allies.

Days before he fled the capital city of Phnom Penh, Pol Pot ordered the destruction of hundreds of thousands of tons of rice and other food stocks being stored throughout Kampuchea. Eyewitness accounts state that so much food was in storage that it burned, in some cases, for weeks. Few Kampucheans would be starving today had this action not been taken.

Vietnam has been sharing its own meager food supplies with Kampuchea, with each province in Vietnam contributing supplies to a corresponding province in Kampuchea. But Vietnam's humanitarian efforts are not sufficient to prevent millions of more deaths. Only an effective international aid program can do this—the relief effort that the State Department and Kennedy forces in Congress are working with Peking to block.

Whose preconditions?

For weeks now, China and the State Department have claimed that Vietnam is blocking food delivery to Kampuchea by placing "political preconditions" and insisting that the aid be delivered through the Heng Samrin government. By making this demand, which the State Department claims would "legitimize" the Vietnamese ongoing presence in Kampuchea, Vietnam is said to be holding that nation "hostage" to its political goals.

It is the State Department that has placed "political preconditions" on the delivery of aid to Kampuchea. State is insisting that all aid to that country be "split" and "shared" by the various "factions," including mass murderer Pol Pot. Vietnam says this demand is a "cover" behind which the United States and Peking will work to rearm the nearly extinct Pol Pot forces and starve out the popular Heng Samrin government, forcing Vietnam and Kampuchea to come under the dictates of China.

UNICEF-Red Cross perfidy

This strategy is being implemented principally through two major international relief agencies—the United Nations Childrens Fund (UNICEF) and the International Red Cross. Australian journalist John Pilger, writing in the Sept. 21 issue of the New Statesman, detailed this blackmail process.

A recent visitor to Phnom Penh, Pilger writes that no American aid has reached Kampuchea for two reasons: "None has been offered, and the Red Cross and UNICEF have made no move to mount a substantial relief program." He notes that the Heng Samrin government appealed for relief at the beginning of July and a written request for 100,000 tons of rice, 15,000 tons of sugar and 8,000 tons of butter oil, as well as medical supplies, was handed to the Red Cross officials. "Two months have since passed, countless thousands have died needlessly."

Pilger then quotes a senior relief agency official to explain the stalling by UNICEF and the Red Cross. "The Pol Pot regime is still recognized by the United Nations and UNICEF has become ensnarled in the anti-Vietnam campaign. The Red Cross may protest its neutrality, but it has become susceptible to pressure, mostly from Washington, not to rush into Cambodia as this may well lead to de facto recognition of the Heng Samrin government and blow away the notion of Vietnam as "aggressor" and the main obstacle to getting relief in. The Red Cross also wants a foothold in China, and China is Pol Pot's most powerful ally. It is a nasty, messy business."

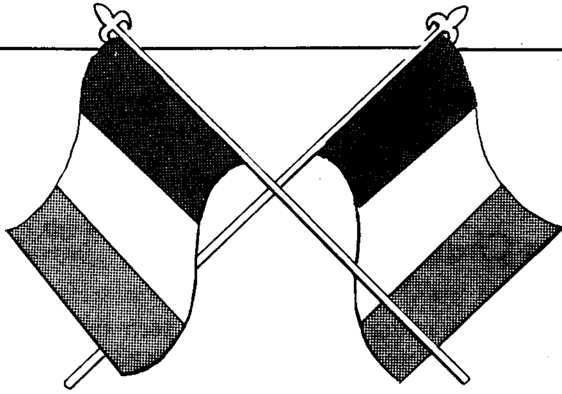
Since the writing of the Pilger article, UNICEF and the Red Cross have announced a $100 million, six-month program to aid Kampuchea, but this is still being held up by the State Department's political preconditions. Last week, a meeting was held in Thailand under the direction of one of that country's Chinese-corrupted Air Marshals. The meeting, involving "donor countries" and officials from UNICEF and Red Cross, decided to spend some $30 million of the program's $100 million for relief efforts primarily in the vicinity of the Thai-Kampuchean border.

In his UN press conference, Phan Hien emphasized Hanoi's view that any attempt to "split" aid to Kampuchea is a cover for creating "two Kampucheas," linked to efforts to bring about a "political neutralization" of Kampuchea, involving another Chinese puppet, former head of state Prince Sihanouk.

He said that China and the United States still hope to regain Chinese influence in Kampuchea, so that country can be used as a western base of military operations against Vietnam, while China-proper threatens from the north.

The State Department is being assisted in this fraudulent relief operation by Sen. Edward Kennedy, who is sponsoring legislation to expand the American participation in the Thailand-based program. Rep. Stephen Solarz, a Kennedy ally, is introducing similar legislation in the House.

—Peter Ennis



The direction of French policy

The second installment of Jacques Cheminade's paper on the historical development of French political economy, published here, continues *Executive Intelligence Review's* series of background features on the policy issues now facing France. Cheminade, an official of the French Finance Ministry, presented this paper last Aug. 6 before the *EIR* seminar commemorating Friedrich List, in Frankfurt, West Germany. The audience of more than 100 included a number of foreign diplomats as well as German political, business and labor representatives, professors and students.

"We are faced today with a world situation in which a humanist Franco-German alliance is a matter of life or death for humanity," began Cheminade in the section we printed last week. "Not only France and Germany were made as republican nations by the predecessors and successors of Friedrich List, but List represents the turning point at which the 'American System,' made for America by the European humanist tradition exemplified by Alexander Hamilton, was brought back to Europe by the 'German-American' Friedrich List.

"That tradition instructs us Europeans to break with the IMF and World Bank and create as an alternative the European Monetary Fund, a monetary Zollverein" (the German customs union founded by List on his return from America in the 1830s), Cheminade said.

The first installment of Cheminade's presentation, in our Oct. 2-8 issue, linked List and his close French collaborators, notably Charles Dupin, to the tradition in political economy of Leibniz and the 16th century French "politique," Jean Bodin. In the second article Cheminade's narrative takes the reader from Bodin through the achievements of Louis XIV's famous minister Colbert, who was looked to by American System thinkers from Hamilton to Henry Carey as the founder of their approach to political economy. It leads up to Interior Minister Chaptal, the individual most responsible for transmitting Hamilton's conceptions back into Europe, at the turn of the 19th century.

Cheminade draws upon original sources that are not widely known even in France today to reconstruct the fascinating history of a "transatlantic conspiracy" that founded modern France and Germany on the basis of the American Revolution. As we go to press, France and the Federal Republic of Germany are drawing into ever closer collaboration. The two heads of government, West German Chancellor Schmidt and French President Giscard, held a summit in Bonn immediately following the Belgrade meeting of the International Monetary Fund.

Out of that Franco-German meeting, two significant joint initiatives have emerged. In a West German television appearance, President Giscard intervened strongly into the debate on nuclear energy now raging in that country. Giscard stated that the choice is either the development of nuclear or an unthinkable reduction in world living standards. Media reports that France is competitively gloating over the German moratorium on nuclear plant construction are the opposite of the truth, he stated.

Secondly, Giscard confirmed that West Germany supports France's proposed European-wide disarmament conference, a proposal that runs counter to Anglo-American efforts to arm for a confrontation with the Soviet Union.

Both projects are in the tradition of the de Gaulle-Adenauer alliance of the early 1960s, an alliance whose roots are traced to the history Cheminade develops.

The tradition of Friedrich List

French political economy from Jean Bodin to Charles Dupin—part 2

Following the principle of the "universal workingman," it is man's task to transform the world into a "universal manufacture," which is the principle binding together the system of national Commonwealths or, in Leibniz's terms, alliance of sovereign republics. Derived from this, Jean Bodin's concrete proposals involved a nest of international trade arrangements and monetary agreements to base the exchange of goods on hard currencies controlled by republican states, this in turn implying a repudiation of the debasement of coinage by all members of the world community (debasement of coinage represented the looting of national wealth by Genoese bankers of Italy and the Fugger house).

The lessons of Jean Bodin were assimilated after his death by Henry IV and his Navarre humanist counselors; Colbert is the broadest achievement of the same policy, later continued in the eighteenth century by the great Colbertians of the Louis XV administration, most notably Forbonnais and Trudaine the Elder, who started a new industrial process in France upon which the victories of the American Revolution and of the armies of the French Republic were both built. There is an absolute continuity, if not always a direct one, between this humanist conspiracy in economic science and the nineteenth century developments of Chaptal, Dupin and List.

The issue of social value

From the sixteenth century onwards, the issue of the secular fight of the humanist forces, then organized mainly in France, against the financial oligarchs of the cities of Amsterdam and London, was centered, in economic terms, on the notion of social value. Following Petty and Locke, the British-Dutch conception locates value in labor as an exchangeable commodity, a fixed good conceived of as the equivalent of the other source of wealth, land. "Economics," in this conception, consists of using the goods as much as possible (manual labor, predatory agriculture) for as little expense as possible, and then to sell the product at the highest possible nominal price. In the long term, only the fittest are supposed to survive: this means the destruction of the national land and population, the notorious "limits to growth" outlined by the law of Malthus and the Club of Rome. The "solution" to the dilemma of an ever-contracting world was, as seen by London and Amsterdam, to cut back the domestic consumption of the "lower classes" to the very limits of total destruction, and maintain that lowest limit of consumption through a systematic policy of looting and destruction applied to the land and populations of other countries.

For that purpose, a network of black propaganda was organized throughout Europe and the world: the notion of "economic science" as a distinct area of knowledge, governed by its own laws and requiring "free trade" and "government abstention" to reach a balanced, stable state, was pushed as a cover for the acceptance of Genoese, Dutch and then British merchant rule of organized, controlled consumption and population collapse.

It is against this evil that the Zollverein conception was developed—from the Renaissance to List—as the proper institution for the *expansion of labor power as opposed to the exploitation of a fixed labor exchange value.* Man, in that conception, is conceived as Bodin's self-perfecting particle participating in the negentropic process of the universe, producing new resources through the creation of mediating objects (machines) transforming matter to higher states. Wealth is not and cannot be a commodity (gold, land, or manual labor) but is the *power* to develop man's willful mastery of the universe, advancement of the productive forces. List refers explicitly to this conception when he accuses Adam Smith of "dealing only with the effects of material exchanges and not at all with the productive forces."

Henri IV's Zollverein, organized by Sully and Barthelemy de Laffemas, follows that conception entirely. Laffemas conceived wealth as manufacturing: "manufacturing should be France's gold and silver mines because *labor is the law of the universe.*" He pointed out that increased industrial efforts were absolutely necessary to develop the land without exhausting its capacities (irrigation, fertilizers) and stressed that only prosperous industries could increase the markets and capital for farming.

Laffemas's self-conscious identity was that of a national leader of the same caliber as List. Following Bodin and Duplessis-Mornay, he had a clear understanding that to reestablish manufacturing development, "royal assistance should be organized, and careful

regulations implemented." His "economics system" was conceived around three interconnected bodies for development promotion:

- State-controlled "guilds" as the means of regulating labor, maintaining high wages and keeping high the standard of products.
- State-controlled "Chambers," gathering the best masters of the guilds as supervisors.
- An "Office of Manufactures," with large powers of administration and regulation in each of the largest cities.

To speed up the overall process of industrialization and the corresponding, necessary education of the French population, Laffemas outlined two measures:

- Temporary prohibition of imports of manufactured goods, unless implying a new technological process not existing in France, and prohibition of exports of certain raw materials following a list published by the King according to the needs of the developing national industry.
- Admission into France of scientists and skilled foreign workers, and easy naturalization procedures for all those wishing to become French citizens.

This program was discussed within and implemented through a "Commission du Commerce" (Trade Committee), created by Henry IV in 1601 as a policy-making body for French development with participation of government administrators, industrialists, merchants and skilled workers. An enormous amount of work was accomplished by the Commission between 1602 and 1604, including the organizing of networks of economic informers throughout France. It is following that first model that the European industrialists' associations were later organized, including List's Handelsverein.

Royal loans were systematically granted at low interest rates to promoters of new industries, mechanical innovations and improved industrial processes were introduced (new steelmaking methods, mills for beating copper, machines to lift loaded boats, manufactures of white lead and lead pipes to build sewers in the main cities, advanced mining technologies and so forth), and roads, bridges and waterways were built throughout the country.

'Colbertism'

The modernization and industrialization of France under Henri IV was achieved in a relatively short period of time, despite poor financial conditions inherited from the wars of religion and owing to Sully's various debt moratoriums declared against the Genoese banking houses. Under Louis XIII, Barthelemay de Laffemas's son, Isaac, was a key economic adviser of Richelieu, and it is the Bodin-Laffemas tradition which directly produced the great Colbert.

It is Colbert—List's explicit political reference—who deliberately equipped France with all the resources of industrial production, basing his effort on scientific and social progress—the academy conception of Leibniz. The essence of "Colbertism" is described by a close collaborator of Charles Dupin in the following terms: "Our times, so rich in hazardous trials, have nothing which can be compared to the boldness of the creations of his time; all of them seemed to be cast in one piece, because they were so wisely coordinated and directed towards a unique goal. *A higher and unique impulsion presided over all the motions of production throughout our country.*"

Colbert's unique contribution is his overall conception of economic development, subsuming all particular areas of means of production. His approach to customs tariff "protection" was precisely based on that development process of the national industry. His measures, on that specific point, follow similar principles as Laffemas's: "To reduce customs taxes on exports of goods manufactured in the kingdom, to also reduce import taxes on all products necessary to the general development of our industry, but to increase our taxes on all products from foreign manufacturers unfairly competing with ours."

As List later did in Germany, Colbert often emphasized to Louis XIV that there is not an abstract economic science which defines the competence and measures to be taken—or not taken—by governments, but the political development of the republic as the primary rule.

The usual story told in university textbooks is that the French Colbertist tradition was somewhat lost during the eighteenth century or degenerated into mere "balance of trade mercantilism," all efforts being concentrated at merely accumulating silver, gold and currencies in the financial reserves of the nation. The dominant reformist economic school of the times is supposed to be the physiocratic (economist) sect, for which land is the only source of wealth and free trade the necessary economic system to expand land-based productions.

The official controller of the French economic sect was none other than Lord Shelbourne, the great-grandson of Sir William Petty and closest associate of butcher William Pitt.

The truth of the matter is that despite the lies and slanders of Adam Smith, David Ricardo and Jean-Baptiste Say, the physiocrats were nothing but a court pressure group until the death of Louis XV. The only fact that had given some credibility to their backward ravings was the fears against credit issuance induced into the French population by the infamous British Law's bankruptcy of the 1720s, produced by the issuance of credit for the West Indies Company hoax under the cover of a national banking system. Otherwise, the dominant drive in the administration and Army of

France was Colbertist: the physiocratic conception of land value and absolute free trade was at best considered in those circles as an absurd stupidity.

Forbonnais and Galiani

Two cases in point are Forbonnais's (1722-1800) *Economic Principles* and Ferrier's *Government Considered in its Relations to Trade* (1805).

François Véron de Forbonnais, a collaborator of Trudaine, Machault, Silhouette, the Abbot Terray and later Dupont de Nemours (himself not a physiocrat in his general outlook), was the economic thinker of Vergennes's American Party, allied with Napolitan Abbot Galiani. Galiani was the key negotiator in the Spanish-French Family Pact of 1761 against England and the organizer of the Jesuits' expulsion from France in 1764. If not themselves creators of the Colbert dimension, these are the true maintainers of the Colbertian tradition, as opposed to the Necker forgery properly called "mercantilism": accumulation of gold, silver and currencies in the coffers of the Geneva-Amsterdam banks through indebtedness of the French nation.

The starting point of Forbonnais's economics is Bodin's notion of the nation's strength represented by quantitative and qualitative increases in its population. Wealth is the production necessary to foster such increases:

> Only the funds which have the factual advantage to produce a real income deserve the name of wealth.
>
> Properties that do not yield a yearly production, such as precious furniture, fruits to be consumed and so forth are only the result of wealth based on income, and not wealth as we mean it; we should call them goods.
>
> So the land that does not produce, the industry which is inactive, bringing no new value to circulation, are not actually wealth, but only goods that can be transformed into wealth if they are set in motion.
>
> Motion is at its outmost in industry, consumption depends on the level of production and it is when a population is activated by production that it becomes a means of strength and wealth for the nation. Land is not wealth, it only becomes wealth if it is activated by other sorts of goods, those produced by industry which expands the level of their activity.

Forbonnais and Galiani were also against free trade, in both domestic and foreign trade, because they feared manipulation of the domestic markets by merchant interests and dumping of British products. How right they were was later proved by the fall of Turgot (Franklin ally but himself physiocratic-influenced), arranged by Swiss-British interests through a set up shortage of flour and grains as a result of his foolish free-trade policies. Galiani expresses the need for state intervention in an ironical way:

> Wheat can be regarded as a production of the land, and from that angle it belongs to trade and economic legislation.
>
> But then it can and has to be regarded at the same time as the matter of first necessity and need in the civilian order of societies, and from that standpoint it belongs to politics and state reason.

To politically master the domestic grain markets, Forbonnais and Galiani advocated a regional state-controlled stocking. Their foreign economic policy was based on protection against dumping and on exports of products incorporating the highest possible amount of labor so as to gain a maximized surplus reinforcing the economic potential of the nation. This twofold approach was conceived as the proper policies against the British system.

Those were the policies implemented by Louis XV, notably at the end of his life, through the Maupéou-Terray government and as part of their fight against the feudal "fronde" represented by the French Parliament. Another key point of those same policies was the debt moratorium drive of the French humanist administrators against the European network of Protestant bankers headed by Necker.

It was the suspicious death of Louis XV that brought physiocratic freetraders into power positions, and led to the degeneration of the Franco-British trade agreements of 1786. List considered that agreement as the trigger of the economic crisis out of which grew the French Revolution, and the point at which the Republican American-French alliance organized by Vergennes broke apart.

Ferrier was very aware of the 1786 disaster. Following his Colbertian predecessors, his standpoint was absolutely not that of "economics" per se but of economic science as the responsibility for the nation-state to improve the living standards and moral qualities of the citizenry through proper allocation of resources to increase production. He opposes his "administrative school," the school for the Leibnizian-Colbertian networks in the French administration, to the physiocratic-economist sect of Adam Smith, bluntly denouncing Smith as an agent of the British Empire. Smith, he says, tries to impose "government abstention" (known today as "free market economics") on the European nations, but only to set them up for a dirigist Bank of England takeover. Ferrier opposes the two basic conceptions of the world: Smith tries to degrade man to the state of passive matter, controlled by bestial impulses, while to "administer" is on the contrary to actively work out good dirigist policies and can only be promoted from

the standpoint of a mastered, active reason. This high economic morality of Ferrier is a much needed lesson for today's French and German industrialists and economic planners, who are unable to understand the coherence of the universe, and proceeded from the belief structure imposed upon them by Smith and his followers—liberalism. Let's then listen to what Ferrier has to say, from the correct standpoint of a "conservatism" which masterminded Napoleon's continental blockade against England, thus launching an unprecedented industrialization process on Continental Europe:

> The essential principle of Smith's doctrine is the following: private interest left to its full liberty necessarily induces the owners of funds to prefer the most favorable use for the national industry, because it is always the most profitable for them.
>
> This principle is the basis for the whole system of the economists (Smith's sect) ... but let's first consider how much it is connected to the principles advanced by the eighteenth century philosophers. According to them, private interest was supposed to drive man toward perfection ... It was the source of all virtues, no more moral or religious precepts were needed; allegedly, it seemed that we were going to be able to do without law and government. We have already tried this beautiful system for some time, and the facts of our history have condemned this way of thinking. (Ferrier refers to the free trade agreements with England).

Going back to Smith, Ferrier answers "no" to the two questions that the *Wealth of Nations* raises. First, even if "objectively" the use of capital most favorable to the whole of a nation's industry could be the use also most favorable to each particular capitalist, it is wrong to say or imagine that the *knowledge* of each individual capitalist would be sufficiently advanced to make him follow his own, true self-interest. Ferrier properly argues that somebody who does not act deliberately as a universal force is unable to recognize his own true self-interest as an initiator and creator. Second, argues Ferrier, it is a mistake to imagine that the use of capital which is the most favorable for the entire national industry is in fact the most favorable one for each individual capitalist. The properties of the whole cannot be equally spread in each of the particles: for example, if allowed to do it, French merchant capitalists would buy their muslins and other cloth in England, where they are cheaper, but the introduction of those goods in France would ruin the national wool and cotton manufacturing industries.

> This trade, if made possible by free trade, would ruin all our industry ... the assets that our industrial firms represent and those which are used for their maintenance would either disintegrate as a result of the sudden inertia hitting them, or transform themselves into cash and leave the country to be invested on the international market ... a merchant can never care at all about the interests of his country ... nothing justifies better the severe measures that the Administration is compelled to implement to prevent the merchants from sacrificing public interest to their own.

Trudaine

But still more advanced than the "conservatives" Ferrier and Forbonnais was Trudaine the Elder, a forgotten but key figure in the humanist networks of the French eighteenth century Leibnizian Administration. Daniel Charles Trudaine, known as "the eighteenth century Colbert," had a clear sense of a Leibnizian Administration as a *unity of command* organizing research and development initiatives for the improvement of agriculture and the development of industry.

The most important aspect of Trudaine's contribution is that he understood—as a reflection in politics of Daniel Bernoulli's 1738 *Hydrodynamics*—the wave effect of the most advanced education as the unique means to organize the population for industrial progress. Trudaine understood that "industrialization" is not a technical problem, an aggregation of production units but a matter of organizing the population through the proper institutions embodying the industrial drive. Hence his dirigist creation of the *Ecole des Ponts et Chaussées* (1747-1750), the first centralized state institution conceived as a cradle for a republican civil service.

The opportunity to found that school was the concrete necessity to solve the problem of the backward French communications infrastructure. Following Leibniz's principle, Trudaine created the most advanced political form to confront the worst problem of backwardness. The Ecole des Ponts et Chaussées, the direct model for the later Ecole Polytechnique, was the first modern institution to select the best minds of the nation, with no other criteria than those minds' quality. A position as student was not gained through arbitrary nomination, family connections or payment, but through a competition based on the most advanced scientific program of the times, including geometry, trigonometry, mechanics, hydraulics (classes based on the work of Bernoulli), architecture, etc. The Ecole trained engineers specialized in infrastructure constructions, and the graduates were sent throughout the country to equip the hinterland under guidance of the administration.

The second key achievement of Trudaine was his creation of the *intendants des manufactures*, an official body of industrial experts in charge of gathering all new inventions developed throughout the world, and

notably in England (which refused to sell its most advanced machines to France), selecting French regions appropriate to such industrial developments, mapping areas for creation of industrial complexes based on mining, manufactures and land development, and proposing appropriate measures to develop labor power and laws to protect its working and living standards.

Third, Trudaine organized mining activities under firm state control through his 1774 law establishing mining concessions on all French territory. This law breaks with the feudal conceptions by denying property rights over buried mineral deposits to the owners of the corresponding land surface, and vesting them instead in the nation represented by the public domain of the King. To organize the productive exploitation of minerals in that framework, Trudaine created a special body of mining experts, the *Corps des Mines,* which today is still the training ground for all the leaders of the French oil and nuclear industries—a stronghold of the French fight against Anglo-American genocidal policies.

The accomplishment of Trudaine and others, including Turgot, had produced by the 1770s a tremendous increase in the productivity of the French economy, at a time when the British economy was heading down under pressure of its own financial interests. Combined with the tight organization of humanist networks in the French Army and Navy (exemplified by Gribeauval and the Noailles family) and the sweeping influence of American republicanism, this force was a direct threat to the British-Swiss system. Hence Necker's efforts to paralyze the French economy through systematic indebtedness, and later Pitt's use of the sans-culotte and anarchist layers to disorganize the French nation and pervert the Revolution into a Rousseauvian, bloody, blind alley.

But by 1797, under guidance of Lazare Carnot, the humanist networks of the 1770s reemerged in a leading position with the industrial and land-development policies of first Interior Minister and "Director" François de Neufchâteau (1797-1799) and then under Interior Minister Claude Chaptal (1801-1804).

François de Neufchâteau restarted Colbertian policies, helping Agriculture Societies to redevelop their activities, organizing an Office of Mechanical Arts and Manufacturing (to inform industrialists on technological innovations and lobby for their interests within the government administration.) and creating a Council on Mining—the Trudaine drive. He set up the first Paris industrial exhibition in 1798, exemplifying his new policies by the 1799 construction of the Paris Austerlitz Bridge with the most advanced available technologies of the time: curved arches of cast iron connected by strips of wrought iron.

Despite Neufchâteau's achievements, it was Chaptal who had the most advanced notion of industrial progress and realized this notion in political practice. Chaptal, chemist, industrialist and statesman, was a close associate of the American Revolution leaders and was twice (in 1792) invited for an official tour in the United States by Georges Washington. Although he had to refuse the invitation, because he was assigned by Carnot to organize the saltpetre and powder production for the Armies of the French revolution, there is no doubt that he was in correspondence with Hamilton through the Federalist circles. It is therefore practically proved that it is through the influence of Chaptal that Hamilton's *Report on Manufactures* first reached List. But even more important to understand List's own background was the type of working relation established between Carnot, Monge and Chaptal. It was a relation of the same higher quality, the same higher order as that between Leibniz and Colbert: Chaptal's primary commitment was to set in motion economic processes ruled by Carnot's and Monge's principle of the highest ratio of energy transformation.

Hence Chaptal's conception of wealth, not located in some fixed point, but in the advancement of labor power. In his 1805 *About French Industry,* he stresses that agriculture, industry and trade are not fixed entities, but "various elements of one, unique, process of production," the discovery and perfection of which embodies "the creative powers of man." He links the relative superiority of industry over agriculture in the production of a higher surplus value to the necessarily urban location of industry, an environment "where knowledge is shared and human resources continuously multiplied."

—To be continued

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On the scenes in New Hampshire

Nuclear power the issue of the nation's first presidential primary

"The people they have are amazing. Outside of the Seabrook demonstration, the LaRouche campaign is the most talked about issue in the state."

That's how one New Hampshire resident assessed the state of the presidential primary campaigns for this reporter. With less than five months before this first and crucial test of electoral strength in late February, Lyndon H. LaRouche's New Hampshire campaign for the Democratic presidential nomination is outstripping that of every other candidate.

This reporter spent two days in Manchester, the state's largest city and headquarters for four presidential campaigns: LaRouche, Phil Crane, President Carter, and Jerry Brown. The Draft Kennedy organization also has an office in this city. I stopped in to chat with campaign workers to get their sense of how the primary campaign is going, what issues their candidate is stressing in New Hampshire.

Just a week away was the environmentalist demonstration at the Seabrook, N.H. nuclear power plant construction site. This magazine has documented the plans of the demonstration's organizers to provoke violence on Oct. 6. What plans were and were not being made at the state level to guard against the incidence of violence was receiving widespread press coverage.

New Hampshire's residents are overwhelmingly pronuclear, and thus, Seabrook and the nuclear question in general are key issues in the New Hampshire primary. How did the campaigns stack up?

Philip M. Crane

Crane campaign literature makes a pronuclear point: "America needs energy sources for her future ... Nuclear energy has the potential for an energy source with an unlimited power supply." But, looking closer at the candidate's energy policy, Crane would leave the research and development of nuclear power to the whim of free market forces when a national commitment to the crash development of nuclear fission and fusion is required.

On the Seabrook demonstration, Crane's Manchester office offered no comment except to say that the candidate's stand on nuclear is clear: "Crane has nothing to do with the Seabrook demonstration."

Crane's stand on the issue is dubbed "conservative" which should make the Crane campaign popular in the Granite State. But political observers I talked to in New Hampshire think that the candidate's campaign will not be able to challenge that of Ronald Reagan, who just opened his New Hampshire campaign this week. Crane came in second to Reagan in a recent Florida poll and Reagan's candidacy for the Republican party nomination received the editorial endorsement of the *Manchester Union Leader*, the state's leading paper.

The Crane campaign's potential problems do not end there. Campaign workers admitted to this reporter that the aggressiveness of the LaRouche campaign is attracting a number of voters away from the Crane campaign.

Jimmy Carter

President Carter's campaign staff in Manchester would offer no statement on Seabrook either except to say without elaboration that "Carter's position on nuclear is clear."

I was struck by the casualness of the staff—the time pressures of the primary campaign are not quite making their impact felt. At one point in our conversation, Carter's Manchester coordinator interrupted to inform me that the grandson of General Pershing was running for President: "Isn't that the funniest thing you ever heard?"

However, a pall fell over Carter's Manchester office when the name Kennedy was mentioned. "I have enough to worry about without worrying about Kennedy," said Carter's Manchester coordinator.

Draft Kennedy

I walked down to the other end of Elm Street to the new offices of the Draft Kennedy organization in New Hampshire headed by Ms. Dudly Dudley and Joann Symons.

Walking into their offices, there was a festive air as if the next day's Beer Bash had started a day early. Nevertheless, I broached the question of Kennedy's ties to the organizers of the Seabrook demonstration (documented in previous issues of *Executive Intelligence Review*) and his stand on nuclear power.

"The only question we can answer is the question of leadership," they said.

"Well, on what issues do you think Sen. Kennedy can provide better leadership?"

"We think that Sen. Kennedy can provide leadership on the issues of energy and economic policy, leadership we are not getting under the current administration."

"Could you be more specific?"

"The only questions we can answer are the questions of leadership. ... Kennedy has called for a moratorium on nuclear after the Three Mile Island incident. He has no connection to Seabrook."

Jerry Brown

Next stop was the Brown for President campaign office in Manchester. As I approached the front door I could not help noticing the license plate of a car parked directly out front: TED K 80.

The apparent equivalence of the Brown and Kennedy campaigns doesn't end there. Listed as New Hampshire Field Coordinator for Brown's campaign is Bill Kantares; providing funding for the Draft Kennedy campaign is Leo Kantares; both are from New Hampshire's most notorious slumlord family.

The office secretary was bubbling with enthusiasm about the primary campaign and the chance to visit and talk with other candidates.

More serious was a state representative who has endorsed the Brown campaign. Asked to comment on the Seabrook demonstration he said: "I would prefer not to comment. It's too sensitive. I will however say that people overestimate the pronuclear sentiment in this state. I think they will be surprised by the showing we expect Gov. Brown to get in this state. We're the only ones saying anything on this."

Gov. Brown's environmentalist proclivities are well known, as are his friendships with noted antinuclear spokesmen Jane Fonda and Tom Hayden. Said our Brown supporter about Fonda who was in New Hampshire for a campus event: "I don't think Jane Fonda will be well received in this state. This is Archie Bunker territory."

Lyndon H. LaRouche, Jr.

Lyndon H. LaRouche, Jr. and his campaign organization, Citizens for LaRouche, are outspoken proponents of nuclear power. LaRouche, who just this week announced for the Democratic Party's presidential nomination, has toured the Seabrook plant, calling it "inspiring." At a press conference on Sept. 24, LaRouche called on Senator Edward Kennedy to denounce and disband the planned terrorist occupation of the Seabrook nuclear facility on Oct. 6. CFL has released a pamphlet on the environmentalist plans and which of Senator Kennedy's biggest New Hampshire backers support them.

LaRouche's Manchester office was jumping with activity; the next day, Sept. 29, Citizens for LaRouche was holding its first event for campaign volunteers.

A spokesman for the LaRouche campaign told me that since late August, Citizens for LaRouche campaign workers have been criss-crossing the state, getting to voters some 330,000 pieces of literature explaining LaRouche's campaign platform.

The LaRouche campaign, he said, has touched the two biggest issues affecting New Hampshire's estimated 400,000 voters: nuclear power and drugs. In his appearances in New Hampshire, LaRouche stresses the revival of the moral purpose of America. It is a campaign emphasis appealing to New Hampshire voters.

I attended a LaRouche campaign event. Despite the threat of rain, 50 New Hampshire voters showed up to shake hands with the candidate.

With the band playing "Hail to the Chief," a Citizens for LaRouche spokesman announced: "Now I'd like to introduce the next President of the United States, Lyndon H. LaRouche, Jr."

"I will soon be leaving for Detroit for the first meeting of the National Anti-Drug Coalition," said LaRouche in his short welcoming address. "What we are going to do at this meeting is to organize those people who are opposed to the plague of drugs, to drug decriminalization, to come out actively against it.

"Here in New Hampshire, we can win the fight for nuclear power and for a drug-free country by winning the February Democratic primary.

"I want to see more of you when I return next week, lots more volunteers. ..."I had an opportunity to speak to some of the new volunteers for LaRouche. One had volunteered to do telephone work. Another will be getting in touch with friends and relatives in northern New Hampshire to prepare the way for a LaRouche campaign swing through that largely conservative area.

Many of these volunteers admitted not even hearing the name LaRouche six weeks ago, before they met LaRouche's campaign workers. They came to the picnic with a commitment to nuclear power, against drugs; in agreement with his military policy or his credit policy. Whatever the issue, the new volunteers for LaRouche see in the candidate the quality of leadership that will turn the country around and restore the moral purpose of America—a quality they see in no other candidate of their party, be it Democratic, Republican, or independent.

Democratic Party insiders say that the LaRouche campaign's machine-building in New Hampshire is unprecedented. If by February LaRouche's campaign volunteers can build a political machine representing one out of every three or four voters, Lyndon LaRouche has a good chance of winning New Hampshire's Democratic primary.

—Kathy Stevens

Congressional Calendar

Aid to Cambodia ... or Pol Pot?

House Resolution 431, calling on the United States to support an international humanitarian relief program for the people of Kampuchea (Cambodia), passed the House of Representatives Sept. 27 by a voice vote. The resolution was introduced by Lester Wolff (D-N.Y.), Chairman of the Asia and Pacific Affairs Subcommittee of the House Foreign Affairs Committee. The resolution notes in part:

"Whereas approximately three million Cambodians have already perished within the borders of their own country; whereas an estimated three million surviving Cambodians now face death through starvation and disease; and ... whereas, the authorities in Phnom Penh and the Socialist Republic of Vienam must cooperate in effectively organizing and carrying out an international humanitarian relief program for the Cambodian people; now, therefore, be it resolved that ... our ambassador to the United Nations seek an emergency agenda item before the General Assembly to inaugurate an emergency food and medical relief program for the people of Cambodia ... (with) the full cooperation of the authorities of Phnom Penh and the Socialist Republic of Vietnam."

Senator George McGovern introduced a companion resolution in the Senate (S. Res. 247). No action has been taken on that resolution, however, because Senator Frank Church's (D-Ida) Foreign Relations Committee and the East Asia Subcommittee headed by John Glenn (D-Ohio) have not moved it to the floor.

Unfortunately, by identifying the State Department and United Nations as vehicles for aid, the Wolff-McGovern resolution leaves the door open to funneling aid to the deposed forces of Pol Pot, responsible for the death of the three million. A source close to McGovern discounted the possible military use of aid by Pol Pot forces, saying that Pol Pot could do little in Cambodia because of the lack of popular support. However, a piece of legislation introduced by Stephen Solarz (D-N.Y.) specifically earmarks aid funds for both Pol Pot and the legitimate Cambodian authorities, using guidelines established by the State Department and international agencies. "The U.S. doesn't recognize either party," said an aide to Solarz, "so we will give aid to both."

Senator Edward "Ted" Kennedy will introduce similar legislation in the form of an amendment to the Foreign Aid Appropriations bill, or alternatively, a sense-of-the-Senate resolution relating to P.L. 480, the Disaster Relief Fund. Kennedy's office confirms that convicted mass murderer Pol Pot will get some of the aid.

Push exports on Capitol Hill

Hearings in two Senate committees during the month of September are indicative of a campaign to promote Japanese-style trade associations in the United States to facilitate an expansion of U.S. exports. Senator Jack Danforth (R-Mo.) and a half-dozen other Republican liberals including Heinz of Pennsylvania, Javits of New York, Roth of Delaware and Texas Democrat Lloyd Bentsen have sponsored S. 864, a bill which would amend the Webb-Pomerene Act to allow for more exemptions of U.S. companies from anti-trust laws when they form export-oriented trade associations.

Senator Adlai Stevenson (D-Ill) has introduced S. 1663, which provides a comprehensive basis for the creation of trade associations, and gives special loan treatment and tax credits to such entities.

Hearings on both bills were held Sept. 17 and 18 in the International Finance Committee of Stevenson's Senate Banking Committee. A week later, similar hearings were held by the Senate Small Business Committee. Sources on Capitol Hill say that the Stevenson bill is generally "considered one or two years ahead of its time," but the Danforth legislation is expected to pass the Senate early next year.

A very similar bill has been introduced to the House by Rep. John Jenrette (D-S.C.). Because it changes anti-trust laws, the bill has been referred to the Monopoly Subcommittee of the House Judiciary Committee. Historically opposed to industrial development, little favorable action is expected from the committee.

There is a distinct difference in approach between the Danforth and Stevenson bills, observers note. The Danforth bill has a "free market" flavor—lift restrictions on companies and allow them to enhance export opportunities through trade associations' resources. Stevenson's approach is dirigistic, calling for active government support through credits and loan guarantees. Stevenson has frequently spoken in favor of an export-oriented "government-industry alliance." It is precisely this as-

pect that disturbs spokesmen close to Senator Heinz, who adopts the Danforth approach.

Senate refuses to cut breeder funds ... again

The issue of funding the Clinch River Breeder Reactor Program was brought to the floor of the Senate Sept. 27. Once again, the legislators refused to allow funds for the vital nuclear program to be cut. Senator Dale Bumpers (D-Ark.) introduced a resolution to cut funds from the continuing authorizations for the project, and it was defeated by a 64 to 33 vote.

However, after describing Bumpers' arguments as coming from "someone who believes in the tooth-fairy and is smoking something." Senator Bennet Johnston (D-La.), stated flatly that the issue involved was economic growth.

"I do not want to save another 50 percent (of energy conservation goals) through unemployment and through a permanent recession in this country," states Johnston. McClure added: "I think it is significant that those people who want a no-growth economy already have all they want ... the NAACP in December 1977 ... specifically rejected the no-growth philosophy, as it would affect their people, because they were not going to be satisfied with the status quo. (Growth) is the dream that America has held out to people over hundreds of years. That is why underprivileged and underdeveloped countries all around the world still look to the U.S. as the leader. Are we going to renounce that now by saying: 'No, don't look to us any more, we don't have any promise for the future'?"

Carter's windfall profits plan stripped down by Senate committee

The Senate Finance Committee this week pared down the total revenues to fund the Carter Energy plan from the White House figure of $142 billion to $70 billion. A major blow to the Carter energy plan came when the Committee rejected a trust fund to disperse the billions which were to come from the windfall profits tax on decontrolled oil profits. The Administration wanted the fund in order to disperse funds to lower income families for higher fuel bills and for the construction of mass transit. Instead the influential committee voted to deposit revenues from the tax directly into the Treasury.

The Senate Finance Committee also voted this week to exempt from the windfall tax only stripper crude producers (those whose individual wells yield 11 barrels a day or less) on their first 1,000 barrels a day. According to a southwestern stripper producer, if this is approved by the Congress it will mean that the smallest independent producers will be constrained from expanding their production beyond the stripper category, for fear of "being taxed out of business." He noted that the medium size U.S. independent oil producers will be hit the hardest if this proposal goes through.

Land reclamation act passes Senate

The controversial bill, S.14, known as the land reclamation act, passed the U.S. Senate by a vote of 47 to 23 on Sept. 14. The Senate vote is a major setback to environmentalists, who sought to use dormant legal restrictions on irrigation acreage to decentralize agriculture in Western states. The new bill eliminates those restrictions—largely on grounds of harm to the environment that would be caused by their enforcement.

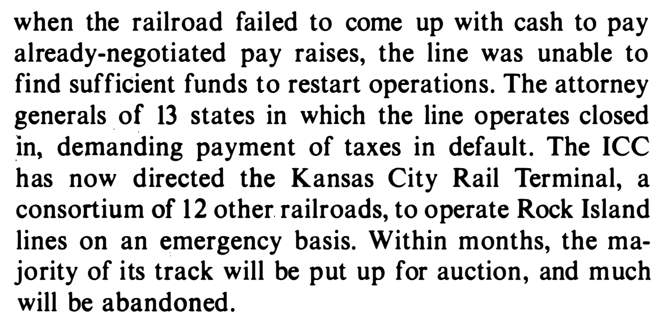
The bill, which was heavily amended on the floor of the Senate, allows for 1,280 acres to be irrigated under Federal programs, a major increase over previous allowable acreage. Residency requirements are stricken from the law, and California's Imperial Valley is exempted from the acreage limits. The bill was initially proposed by Senator Frank Church (D-Ida.). The original would have provided many more benefits for farmers than the final version. An amendment by Mark Hatfield, a Republican cosponsor, deleted provisions to allow farmers to be exempted from acreage limits if they paid the balance of certain irrigation costs. Another amendment by Alan Cranston (D-Cal.) eliminated the original bill's exemption for the major Kings River irrigation project in California's Central Valley.

The bill now goes before the House Interior and Insular Affairs Committee. No hearing dates in the House are set yet.

The famous Land Reclamation Act of 1902 permitted farmers to use Federal irrigation projects to water no more than 160 acres. The bill, still in effect, has never been rigidly enforced, and so, very large Federally irrigated farms have developed. Some of the nation's most fertile areas, like the Imperial Valley, developed in this way.

Dismantling the railroads

One way to make money at the expense of the U.S. economy



In interviews with *Executive Intelligence Review*, the small group of men who control the future of the nation's rail system—at the Department of Energy, the Interstate Commerce Commission, and the New York financial community—projected a major reorganization of the nation's rail system. The system that will emerge from the coming months of political scramble, according to their planning, will include 25 percent less track, and a further reduction in size of the total system, a reduction as great as the shrinkage of the past ten years.

In the "overbuilt" Midwest, in particular, rail lines will lose between 40 and 60 percent of total track, much of it on failing carriers like the Rock Island and the Milwaukee railroads.

They have already pulled the trigger for these developments: Last month, the Rock Island effectively ceased to exist as a corporate entity. Following a month-long strike of its unionized work force, who walked out when the railroad failed to come up with cash to pay already-negotiated pay raises, the line was unable to find sufficient funds to restart operations. The attorney generals of 13 states in which the line operates closed in, demanding payment of taxes in default. The ICC has now directed the Kansas City Rail Terminal, a consortium of 12 other railroads, to operate Rock Island lines on an emergency basis. Within months, the majority of its track will be put up for auction, and much will be abandoned.

The very same week, Federal Judge McGrath granted a petition of Milwaukee Road trustee Richard Ogilvie, former Illinois governor, to "embargo" (that is, terminate service on) 6,000 miles of track, the road's long stretch to the West Coast. The outcome of the decision is unclear. Farmers' and utilities' organizations consider much of this track so essential that they have proposed an association of shippers, rail employees, and state governments to take the line over.

However, leading rail investors are not sanguine about the prospect of avoiding large-scale abandonments. "People's habits wwll have to change," said one investment bank analyst in New York. "Somebody somewhere is not going to be as well off as he used to be. Unions, businesses, and geographic areas will just not get what they're used to even though sensible people argue that there are too many railroads and too much track for the current economy to sustain. The world could do without the Milwaukee Road and the Rock Island, provided somebody gets parts of them."

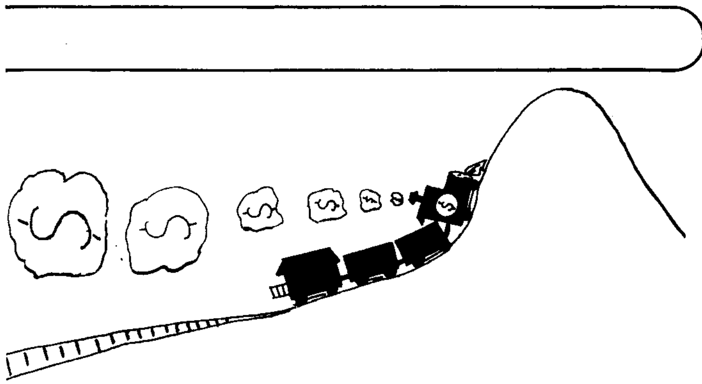
Railroads overbuilt?

Exactly how and to what extent the railroads are "overbuilt" in the Midwest is a matter of contention. Certainly, they were jerry-built at the end of the last century by competing companies whose last thought was a coherent, rational rail transport system. However, according to analysts and industry officials, the shape of the future lines will not please everyone—especially not Midwestern farmers.

The lines that will benefit will be long-haul routes

In this section

Can you make money off a bankruptcy? You can if you are a railroad investor. This week's ECONOMIC SURVEY presents the results of intensive research by Steve Parsons and Leif Johnson under the direction of our Economics Editor, David Goldman. They have produced an earth-shaking exposé of who's doing what to the American railroads—and the economy they provide essential transport services for. Wall Street investment bankers , insurance companies, real estate operators, and with essential help from government insiders, are "reorganizing" railroads out of existence, and making billions in the process. Included: the real statistics, financial and physical, on the railroads today, and a special report on the paradigmatic Penn Central: "How to make $8 billion off a bankruptcy."



for both grain and coal, much more, however, for coal. The Departments of Energy and Transportation are already committed to providing rate increases as required to permit the repair of coal-carrying lines. The Louisville and Nashville Road in the Southeast just received a 35 percent rate increase on its prime coal-carrying routes, under the condition that the additional revenue be ploughed back into track repairs. Burlington and Northern, likely to be the prime beneficiary of both the Rock Island and Milwaukee troubles, is the favorite rail stock among Wall Street analysts at the moment. It is already receiving rate increases from the Interstate Commerce Commission in the neighborhood of 50 percent on certain of its routes. In the case of the Milwaukee, the Department of Transportation just offered a $1,8 million subsidy to the line to prevent the closing of coal-carrying routes—the harbinger of much more to come, according to Congressional sources.

What will continue to suffer—in a dramatic acceleration of the trend of the last ten years—is short hauls to grain elevators, river and lake ports, and terminals serving agricultural routes. Ten years ago, many farms still shipped their grain via sidings that came up to individual farm silos. Now, virtually all haulage to grain elevators must be done by truck. As a result of the conversion from rail to truck, the concentration from small country elevators to larger central grain elevators, and other factors, the bottom-line cost to farmers of grain shipment has risen as much as 40 percent of the total price. The next round of abandonments, according to analysts, will force farmers to employ trucks for significant amounts of medium-haul cartage to the few long-haul rail lines remaining intact.

The cases of the Rock Island and the Milwaukee are exemplary. In both cases, the lines have pleaded bankruptcy, and put regional interests into a corner. "It's like gangrene," commented the transportation aide to the Governor of one affected state. "From what the trustee (of the bankrupt railroad—ed.) has told us, either we cut off the sick parts, or we'll lose everything."

Although state governments, utilities, and agricultural associations "suspect a hidden agenda," by and large they have accepted the claims of railway trustees like former Governor Ogilvie and his predecessor, Stanley E. Hillman, the ex-President of the Illinois Gulf Central Railroad. After all, why would a railroad lose money on purpose?

In fact, it's possible for railway investors to make a killing when railroads lose money—down to and through full-dress bankruptcy proceedings.

Currently, the Rock Island carries about 10 percent of all U.S. wheat, and a staggering 22 percent of Iowa's corn output. The line serves over 1600 grain elevators. The Milwaukee covers a similar group of shippers in Wisconsin, the Dakotas, and Montana, operating one of two Northern Tier transcontinental lines. The latter line, which is slated for closure, is not only important to Midwestern utilities, who ship Montana and Wyoming coal East for power generation. Farmers, too, are increasingly dependent on the rail lines to the Pacific ports. This has become even more the case due to bottlenecks on the main water transport routes to ocean ports. For example, the Mississippi River's biggest bottleneck, Lock and Dam 26 at Alton, Illinois, now puts an absolute limit on peak-season river transport of grain. Although methods are available to keep the waterway ice free year-round, the St. Lawrence Seaway is not available during five winter months because the investments have not been made.

The transport system presently cannot move the type of harvest that the nation's farmers now can produce, even with acreage cutbacks and federally-financed crop withholdings. Car shortages now average over 25,000 per day. Terminals and certain main-line hauls are operating at peak capacity. With agricultural products forming the single largest component of U.S. exports, the transport crunch is a basic problem for the entire national economy.

Possibly, rail lines could learn to make money by providing efficient short-hauls, terminal service, and other basic requirements of agricultural transport, rather than stripping themselves down to a few long haul routes which require little sophisticated planning. However, investors in railroad corporations can sometimes make a great deal more money through asset-stripping. The St. Louis investment bank of Sherck, Stein and Frank, which handles the personal fortune of Chicago wheeler-dealer Henry Crown, is a good case in point.

Henry Crown is a self-styled philanthropist, whose avowed goal in life is to make his net taxable worth less each year. In 1946, he acquired a block of outstanding debt issues of the Rock Island Railroad, which was then, as now, under bankruptcy reorganization. By 1948, Crown had converted most of his debt holdings to equity and emerged as the main stockholder of the Rock. Since 1962 Crown has tried to merge the Rock Island with other railroads like the Union Pacific,

letting the Rock run downhill in expectation of the merger and taking all kinds of tax losses to shelter his other investments.

But the ICC blocked the attempt for 12 years. By 1974, the Rock was in such bad shape that the UP withdrew its offer. One year later, the Rock was declared bankrupt in federal court.

Since then, Crown has been trying to liquidate the Rock Island for scrap, to the consternation of railroad managers who believed the line could be revived.

Crown is the major shareholder in another railroad, the St. Louis-San Francisco, holding over 10 percent of the stock. In the coming months, the ICC is expected to rule favorably on the proposed merger of the Frisco with the Burlington Northern. The Burlington is the Milwaukee Road's chief competitor, operating the only other northern transcontinental rail line. The merger will give Crown the largest individual block of stock in the BN—and control over the largest grain and coal carrier in the nation. The Rock Island, meanwhile, will be sold off piecemeal to various railroads at bargain-basement prices. Its routes will be drastically curtailed. A major beneficiary will be the IC Gulf Railroad. Crown turns up again as IC Gulf's biggest shipper, from his southern Illinois coal mines.

While the grain belt will just have to get by with less, Crown will get:

• a huge carry-forward tax credit from the Rock Island fire sale to shelter his gains from the BN-Frisco merger and other investments;

• hefty investment tax and related credits from the merger, as well as from sections of the Milwaukee that the BN will pick up for a song;

• a 20 percent or more increase in the value of his Frisco rail stock following the merger;

• a sharp jump in income from the BN's takeover of Milwaukee track and the higher rates it will be able to charge captive shippers. In particular, the DOE's push for coal rate increases, to be discussed below, will make the BN look terrific.

'Save the Milwaukee'

There is a "Save the Milwaukee" drive underway, under the direction of Sen. John Melcher (D-Montana). However, Melcher's operation is counting on the Department of Energy to come through with close to $50 million in rehabilitation funds for the line's dillapidated Western track to make it viable again. The DOE is expected to release a report shortly stating its position in the line. However, DOE sources say that it is unlikely that the Department will opt for saving the line to the coast—the part that Montana, Dakota and Wyoming farmers depend on. At best, the DOE will suggest saving two thousand miles of track to ship coal back East.

Ultimately, the Western interests are counting on raising the required cash through a consortium of Milwaukee Road employees, shippers, and state governments. The skeleton of such a consortium has already been formed, under the rubric of New Milwaukee Lines, Inc., a Chicago-based corporation.

However, the other shoe has not yet dropped. Fuel allocations—which helped push the Milwaukee and the Rock under during last summer's gasoline shortage—will hit the transportation sector hard this winter, according to industry analysts and Department of Energy sources. The unraveling of the rail grid will then accelerate—under the ddrection of Energy Secretary Charles Duncan.

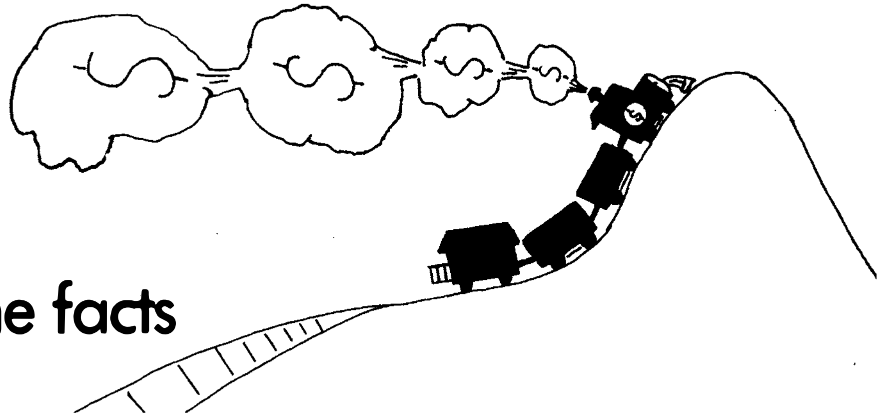
Airlines will create a precedent for the entire transportation sector, one analyst predicted. "When deregulation came out," he said, "it was said that small communities would be hit. That didn't happen. The commuter lines took over the service. But wait until you get dollar a gallon aviation fuel. Then the Midwest is going to be absolutely raped. Service to the mid-sized cities, like Cincinnati, Dayton, Toledo, and Milwaukee, is going to be cut back drastically."

The expected early winter fuel shortage will give Duncan the pretext that he (and the airlines) want, the analyst continued. Farmers this year will require between 25 and 30 percent more diesel fuel than last, due to ground and weather conditions. Much of that fuel will not be available, especially when colder weather hits and farmers must switch to less available, lighter grade fuels. Farmers will demand more fuel, and Duncan may give it to them by imposing mandatory fuel allocations on transport. "The airlines will love this, particularly since profits are now on the downward curve since airline deregulation. They need to get rid of unprofitable routes." More fuel allocations will possibly enable farmers to complete the harvest—but inhibit trucks and rail lines from shipping harvested grain. And the entire exercise will spark the national debate over railroad and trucking deregulation.

"It's easier to go after the airlines first," said one analyst. "Theri rights of way are just a scrap of paper. If you go after the railroads, you run into a guy whose got two grain elevators and a steel mill on a section of track. But if the airlines go, other transport modes will follow."

The Federal Railway Administration appears to be thinking along these lines. The FRA is ignoring shippers' charges that rail deregulation would entail widespread service cutbacks and rationalizations that would lead to huge rate increases. Says Deputy Administrator Robert Gallamore: "We at FRA believe that deregulation is a good idea whose time has come.... [There] must be greater efforts to rationalize excess or redundant facilities.... We recognize this means more abandonment. We also recognize that the prospect of losing local rail service is very disturbing to shippers and communities served by those lines."

—David Goldman and Stephen Parsons



U.S. railroads: the facts

There is no exaggeration in comparing the railroad industry today with New York City and other urban centers blighted by decades of disinvestment. There are a few rail lines that have managed to thrive over the past 50 years and continue to modernize and make capital investments. But even these fall far short of minimal levels of service and financial viability appropriate to the transportation needs of the late 20th century. Today in key areas of profitability, service, and equipment, current levels are not only far below those prior to the 1930s Depression—but even lower than those during the Depression.

As a result, there exists a number of bottlenecks that are strangling the industry; without management teams and investment incentives to tackle these bottlenecks, the transportation snarls gripping urban and rural areas alike will continue to worsen.

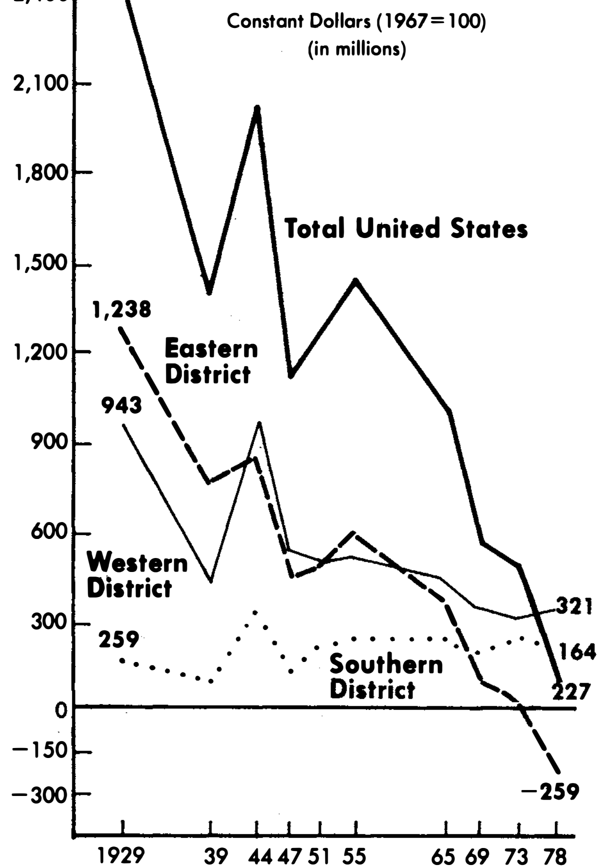
Profitability

The most often cited measures of railroad profitability are (1) the net railway operating income (NROI), defined as the remainder of operating revenues after deducting operating expenses, taxes and rents for equipment and joint facilities, but before recording non-operating income and deducting fixed charges; and (2) the rate of return, the ratio of NROI to net investment in transportation property. In current dollar terms, the picture is bad enough (see Table 1). In 1929 NROI for the U.S. as a whole was $1,252 million; in 1978 it was only $443 million, a 65 percent drop. The rate of return was 5.30 percent in 1929; last year it was a scant 1.62 percent. The largest component of the decline has been Eastern District railroads, primarily the old Penn Central and current Conrail systems. In 1929 Eastern District railroads turned a $635 million profit. Today they are running a half-billion dollar deficit.

The Southern and Western Districts, in contrast, appear to be performing reasonably well, given the general decline in railroads. Both have rates of return comparable to 1929. The Southern District showed a $320 million profit last year, and the Western District $628 million, substantially over the 1929 figures. However, a mere 2 percent per annum projected growth rate since 1955 shows that while Southern District profits did increase at about that rate, the Western District's were considerably less. And the 2 percent projection does not even include the effects of inflation.

But a comparison of NROI in constant dollar terms lays out the real horror story. If we were to inflate 1929 dollars into today's dollars, railroads on the whole would have earned nearly *$5 billion* in 1929 versus the paltry $443 million last year. Southern and Western

Figure 1
Net Railway Operating Income, 1929-1978
Constant Dollars (1967=100)
(in millions)



District roads would have made $507 million and $1.85 million, respectively!

In 1967 dollars, the picture is just as incredibly bad (see Figure 1). The touted "recovery" in recent years, even for Western and Southern roads, barely reached the pathetic levels of 1974—which by that time were almost the lowest since 1929. Since 1967, neither the Southern nor Western District has come near to attaining, in constant dollar terms, their profit margins of 1939—at the depths of the Depression. The total rail system has not come near 1939 profits since 1946!

Service

Railroads are the most energy-efficient form of land transportation, averaging about 200 ton-miles per gallon of fuel, versus only 60 ton-miles for trucks. Yet, since 1929, railroads have carried a steadily decreasing percentage of total freight and passengers moved in the United States.

Figure 2 shows the precipitous decline in railroad passenger miles. Today, total passenger miles are only one-third of 1929 levels, and only 22 percent of 1947 levels. Intercity passenger miles have plunged 77 percent since 1929, and 86 percent since 1947. Only in part can this be attributed to the rise in automobile and air transportation, as becomes obvious by noting that commuter passenger miles are one-third less than 1929 levels—despite the tremendous urban-suburban sprawl since World War II. The fact of the matter is that railroads have invested in neither modernized nor expanded facilities—for reasons that will be made clear in the next section—nor have they increased their efficiency.

Table 2 depicts the decline in railroad freight transportation relative to other modes. Prior to the Depression and during the war years, railroads carried over 75 percent of all intercity freight. Today they carry less than half.

Supposedly in "response" to the slackening rate of demand, railroads have cut service drastically. A key

Figure 2
Passenger Miles, 1929-1978
(in millions)

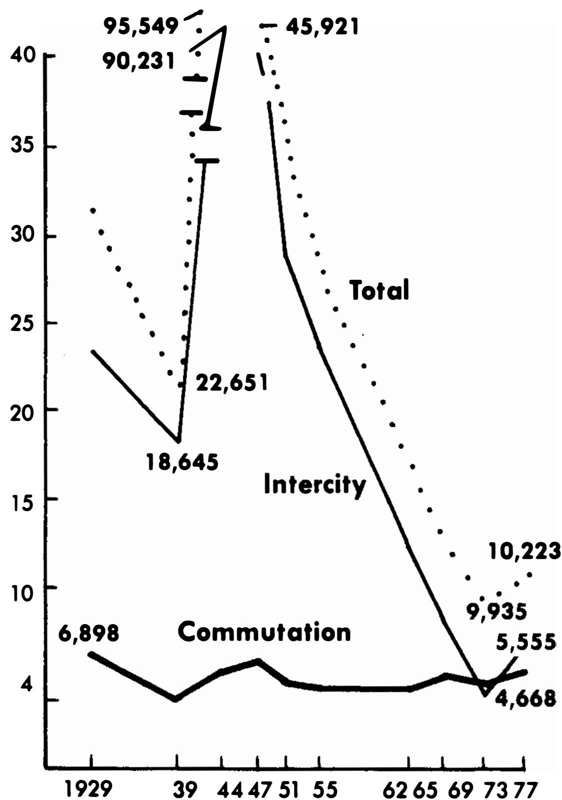
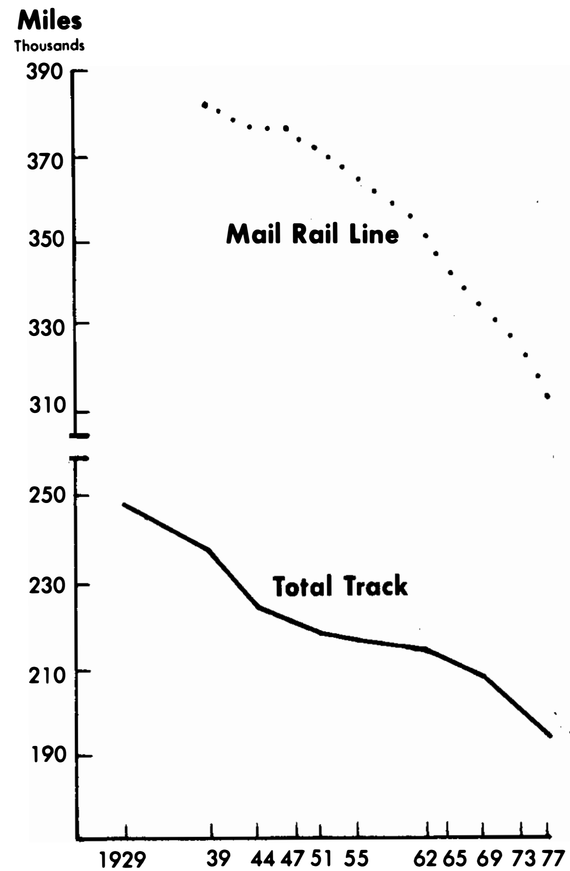


Figure 3
Rail and Track



indicator of these cutbacks is that rail track has been abandoned at an accelerating rate, and is now 25 percent less than in 1929 (see Figure 3). While new rail laid has been increasing more or less steadily since the early 1960s from a nadir of 300,000 tons per year to 950,000 tons in 1977, it is still below even the 1939 level—and only 40 percent of the 2.3 million tons laid in 1929.

In addition, for many years the industry has increasingly taken freight trains out of regularly scheduled service. This practice is epitomized by Conrail, which now runs the vast majority of its freight trains on an "as needed" basis. The abandonments and service cutbacks have accelerated loss of rail traffic; shippers never know when they will receive either cars or trains, and have thus been forced to shift to truck, despite higher costs. The traffic losses more than offset the "savings" railroads attain by triaging less-than-load scheduled trains. More trains are then cut, rates go up, more business is lost, *ad infinitum*. This austerity approach is identical to the New York City "solution" of Felix Rohatyn's Big Mac. At the end of the line, as in New York, is bankruptcy, where the taxpayer pours billions of dollars into sheer junkheaps.

The inefficiency of rail service is reflected in several measures. First, the number of locomotives and rail cars available have sharply declined (see Figure 4, Table 3). Today there are fewer than half the locomotives and one-third the cars than there were in 1929.

Second, a serviceable car is in a train on average only 13 percent of the time, while its average daily mileage in 1978 amounted to a miserable "record" 59.5 miles, according to the Association of American Railroads. While this is an improvement over the 7.4 percent of 50 years ago, it is nevertheless an indictment of the lack of systems management, since cars and locomotives are designed much better today than in 1929.

The problem is a complex amalgam of poor management, archaic Interstate Commerce Commission regulations, and most especially, the lack of investment

Figure 4
Freight Cars and Locomotives, 1929-1978

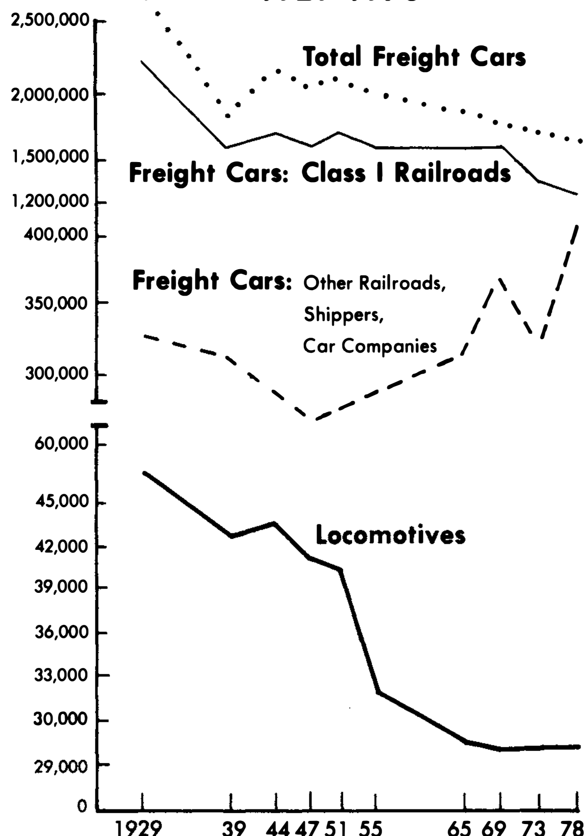
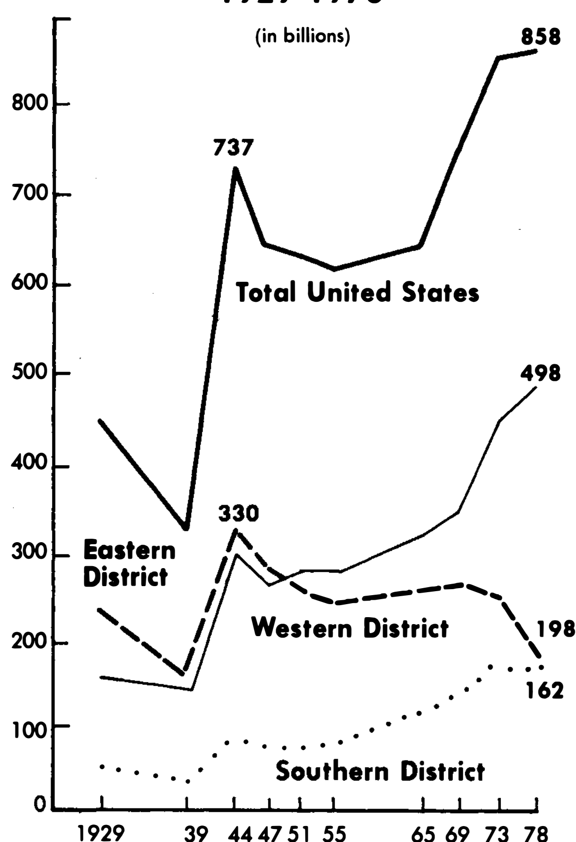


Figure 5
Ton Miles Of Freight, 1929-1978



in modernizing terminals and in computer routing of traffic. The Department of Transportation estimates that a capital investment level of $4.2 billion per year is necessary to modernize the rail system, but expects railroads to fall short by $1.3-1.6 billion annually. In addition, research and development comprises only .1 percent of the railroad budget, as compared with 3-5 percent for other industries.

The AAR has made the remarkable calculation that even if trains traveled an infinite number of miles per hour, efficiency would increase only 5 percent! Most of the time, the average rail car is tied up in terminals or yards or is simply broken down. For a mere $500 million, the entire U.S. railway system could be computerized, a step that industry experts agree would easily double car utilization, if coupled with minimal procedural changes in terminals. Even Conrail could afford this, but refuses to make the investment.

The 13 percent train-time figure paints a better picture than is actually the case. It accounts only for "cars in service," excluding those is disrepair, "out of service," or just sitting in yards and sidings. If the 13 percent figure were a true measure, cars would be in trains 47 days a year. In fact, the average car is moving only 22 days a year—6 percent of the time—and makes an average of less than 15 trips per year! Furthermore, a greater proportion of cars are out of service today than ever before. In 1929, 89 percent of the fleet was at least operational, if not being used very much; today, only 81 percent is in service.

The phony numbers

The rail industry likes to point out that despite all its problems—including the misfortunes of Eastern District roads and the relative decline in the proportion of freight carried by rail (Table 3)—ton-miles have nearly doubled since 1929 (Figure 5), and ton-miles per loaded car have more than quadrupled (Table 4). Ton miles is the non-financial basis by which the industry measures its prosperity.

As their proportion of freight has dropped, railroads have concentrated on increasing ton miles, primarily by carrying longer-haul loads, which reduce the proportion of terminal time (though the growing inefficiences and lack of capital investment mentioned above have more than offset these gains). Ton-miles, however, have increased on average *less than 1 percent a year since 1947!* A meager 2 percent growth rate since then would have increased ton miles by 43 percent over current levels (see Table 5).

Even worse, freight car mileage and originated tonnage—that not received from any other rail line, and therefore representing the real freight total of the rail system—are virtually *the same as in 1929.* What the railroads have done is to nearly double the distance the average ton is hauled and nearly double the actual load and load capacity of the average car, to achieve the doubling of ton-miles per car loaded. But in reality, they are moving no more than they did 50 years ago! Furthermore, the emphasis on longer hauls has drastically cut service to short-haul shippers, underscoring the decline of Eastern roads where routes are much shorter.

Given that originated freight and car mileage have stagnated while advancing technology has meant a substantial increase in car capacity and locomotive horsepower and durability (Table 3), the number of cars and locomotives have dropped sharply, as noted above. Today car capacity is barely larger than in 1929, while the number of cars in the average train has climbed by 50 percent.

The emphasis on longer trains with larger loads has helped reduce car loadings by over 50 percent, in addition to generally inefficient car utilization. In 1929, there were 53 million loadings; last year, there were 23 million. What is saddest about this statistic is that it is doubtful that railroads today could handle as many loadings as there were in 1929.

Table 5 takes several key categories and compares actual yearly levels with what they would be today based on only a 2 percent annual growth rate. The disparity is striking.

The rail car fiasco

Besides the push for fewer cars carrying heavier loads over longer distances, declining profits have been the greatest factor in railroads' reducing their car fleets. The combination of lagging industry investment in cars plus incentives to the private sector to build cars has resulted in a sharp rise in non-railroad-owned cars (Figure 4). In 1929, Class I railroads owned 87 percent of all cars; last year this was down to 74 percent. Since 1970 the total rail car fleet has declined nearly 8 percent. Railroad-owned cars fell nearly 12 percent, but non-railroad-owned cars *increased* 8 percent.

To the benefit of the car leasing companies and short-line railroads largely controlled by these companies, Class I railroads have increased the rate of retirement of their own cars. Between June, 1977 and June, 1979, railroads put nearly 58,000 of their own cars on line, but retired 124,000—a net capacity loss of 2.7 million tons. The "privates" have filled the gap, getting the additional benefits of investment tax credits and accelerated depreciation tax deferments, while the railroads must pay inflated leasing costs and lose both the tax credits and the cars as assets.

To make matters worse, there is now an average shortage of 25,000 cars per day, with an order backlog of 18 months. This translates into about 60 million tons per month lost by the railroads, or about 35,000 billion ton-miles each month—4 percent of each year's total ton-miles.

—*Steve Parsons*

Table I
Net railway operating income (NROI)

(in current millions of dollars)

Year	Total U.S.	Eastern District	Southern District	Western District
1929	1,252	635	133	484
1955	1,128	481	197	449
1978	443	− 506	320	628
Change 1929-78	− 809	−1,141	187	244
% change	− 65	− 180	141	50
1978*	1,851	758	310	708

*Projecting a 2 percent growth rate from 1955 to present.

Table 2
Rail As Percentage Of Total Transport

Year	Railroads		Truck		Great Lakes		River/Canal		Total
	mn. t.m.*	%	mn. t.m.*	%	mn. t.m.*	%	mn. t.m.*	%	mn. t.m.*
1929	454,800	78	19,589	3	97,322	17	8,661	2	580,472
1939	338,850	69	52,821	11	76,312	16	19,937	4	487,920
1944	746,912	78	58,264	6	118,769	12	31,386	3	955,331
1950	596,940	64	172,860	19	111,687	11.5	51,657	5.5	933,144
1960	579,130	53	285,483	26	99,468	9	120,785	11	1,084,866
1970	771,168	51	412,000	27	114,475	8	204,085	14	1,501,728
1974	885,582	49	555,000	31	90,695	5	277,580	15	1,808,857
1978	870,000	47	602,000	32	98,000	5	291,000	16	1,861,000

*t.m. = ton miles

Table 3
Freight Car Capacity

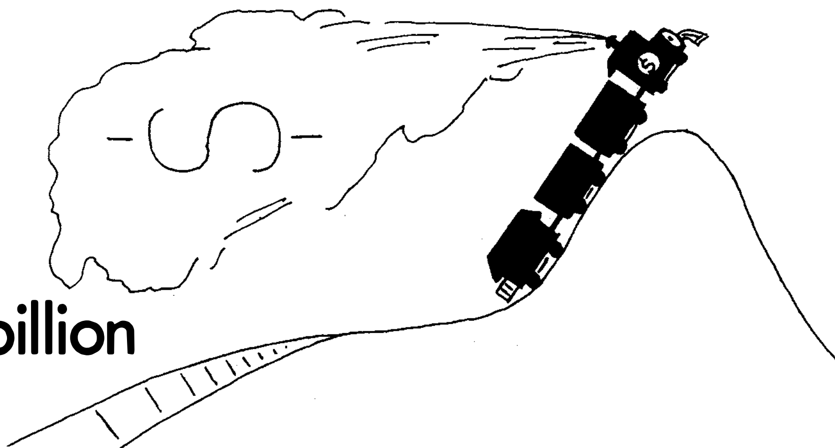
Year	Total Freight Cars	Avg. Capacity Per Car (tons)	Total Capacity (tons)
1929	2,620,662	46.3	120,873,650
1939	1,961,705	49.7	97,496,738
1944	2,067,948	50.8	105,051,750
1965	1,800,662	59.7	107,499,520
1970	1,784,181	67.1	119,718,540
1978	1,652,774	76.7	126,767,760
1929-1978	−957,888	+30.4	+5,894,110
	−36.7%	+65.7%	+4.9%

Table 4
Comparison Of Freight Car Miles And Ton-Miles 1978 and 1929

	Total Ton Miles	Ton Miles Per Car	Avg. Haul Per Car	Originated Tonnage (millions)	Total Car Mileage (millions)	Number Of Cars	Avg. Load Per Car	Avg. Daily Car Mileage
1929	447,332	8,468	317 mi.	1,339	29,142	2,610,662	35.4	34.4
1978	858,105	36,714	587 mi.	1,389	29,052	1,652,774	62.1	59.5
1929-1978	+92%	+334%	+85%	+85%	+3.7%	−.3%	−37%	+73%

Table 5
The Unnecessary Car Shortage

	Ton-Miles	Originated Tonnage	Freight Car Miles (millions)	No. Of Cars	No. Of Locomotives	Passenger Miles (millions)
Actual 1947	654,728	1,537	32,201	2,025,008	41,719	45,929
Actual 1978	858,105	1,389	29,052	1,652,774	27,772	10,223
if 2% growth since 1947	1,233,860	2,896	60,684	3,816,207	78,621	86,555
% higher than 1978	43%	108%	109%	131%	183%	747%



How to make $8 billion off a bankruptcy

In just under a decade the Penn Central, the nation's largest railroad and most spectacular bankruptcy case has parlayed $4 billion in debts, a yearly operating deficit approaching $200 million, and a railroad valued by the Federal government at $600 million in scrap, into a high-flying conglomerate whose total realized value by 1985 will amount to nearly $8 billion.

The means by which such things are accomplished, dubbed a "Well Managed Bankruptcy," are by no means limited to Penn Central. Experts consider railroads among the best vehicles for a Well Managed Bankruptcy (WMB), since railroads are largely a real estate operation to begin with. The transformation into a real estate or raw materials conglomerate using accumulated, carry forward tax losses is relatively simple. Railroads are such a necessary part of the nation's and localities' economic life that all levels of government, shippers, and even employees will cooperate with the bankruptcy managers to keep the operating company, the railroad, alive while the real assets are preserved.

Otherwise, a Well Managed Bankruptcy, whose basis is the skillful use of the tax law, and creation of an atmosphere of crisis and uncertainty to produce the most advantageous financial result, depends on the cooperation of political authorities, financial personnel, and the court system. Few Well Managed Bankruptcies have been accomplished without the guiding hand of top level real estate and insurance technicians who have both expertise and myriad personal contacts in their respective fields.

There are four basic phases of a WMB: preparation for bankruptcy, declaration of bankruptcy, internal reorganization, and final disposition or realization.

Many American railroads are today prepared for the first phase of WMB. With very small or negative operating earnings, long-deferred maintenance, nonexistent capitalization programs, and heavy indebtedness, bankruptcy is an entirely plausible occurence and will not be seen as "insider manipulation." At the point of bankruptcy there should be few operating assets left, both to avoid turning assets over to the eventual receiver—be it government, shippers, or even employees—and to allow the bankruptcy judge to legitimately claim that the bankruptcy was insoluble, thus preparing for disposal of the operating company.

It was not the enormous $189 million 1969 operating loss of the Penn Central that doomed the line a short two years after its birth in the New York Central-Pennsylvania merger. Rather, it was the elaborate system of leaseholds underlying the trackage, tunnels, equipment, land and other improvements that in fact produced these and other "losses."

The railroad itself is at the top of a pyramid from which cash flows down into leaseholds beneath.

A trip from Boston to Philadelphia before bankruptcy would have taken the passenger over the routes of the Boston Terminal Corp., the New York, New Haven and Hartford Railroad and its subsidiaries, including the Boston and Providence which sat in bankruptcy for forty years, the New York Connecting Railroad, the Pennsylvania Tunnel and TerminalhRailroad, the Philadelphia and Trenton Railroad and eventually on to the trackage of the Philadelphia, Baltimore and Washington Railroad: four of these leased trackage to the Penn Central. Such leaseholds, like the Philadelphia and Trenton's 999-year lease of 7 miles between Morrisville and Frankfort, Pennsylvania at ten percent per year of the value of the outstanding securities of the Philadelphia and Trenton, absorbed the cash of the operating company.

The Penn Central's underlying leaseholds were so intricate that while Moody's Transportation Manual gives most major companies two to four pages, description of the Penn Central and its subsidiaries required 66 pages of this 1974 edition.

Just before bankruptcy, the large inside investors may pull out; Goldman Sachs advised key Penn Central investors in the spring of 1970 to dump nearly a billion in securities months before bankruptcy. While this may be highly profitable, it is illegal—Goldman Sachs was subsequently judicially punished—and the validity of the bankruptcy was tarnished. Since such dumping is not essential to a Well Managed Bankruptcy, and may result in unfavorable court proceedings or adverse public opinion, competent WMB managers shun this operation. In the $8 billion value we project by 1985 for Penn Central WMB profits, this value item has been left out.

The second act of a WMB is the actual bankruptcy, usually prompted by failure to float short-term bonds. In the case of the Penn Central, former chairman Stuart T. Saunders found himself unable to cover $200 million in short term commercial paper maturing over the summer of 1970, even if he was willing to issue obligations one percentage point above market rates.

In the immediate wake of the announcement of financial trouble, stories appeared in the press of the railroad running out of cash "next Thursday," with reports such as "payrolls will be met this week, but next week...." Both the unwillingness of money sources to lend and the imminent choking off of the operating company's cash flow appeared entirely reasonable given the actual condition of the railroad, which certain newspapers took care to paint very darkly.

Bankruptcy immediately reshuffles the cash flow. State and local governments receive no taxes, dividends are eliminated, the value of stocks and bonds plummets, judgments, fringe benefits and even wage payouts are halted or cut, and vendors are left holding their breath. Equipment leasors, often large commercial banks like Chase Manhattan or Irving Trust, usually get paid, the reasoning being that otherwise they would repossess the equipment.

The longest phase of the WMB is the internal reconstruction period in which the bankruptcy is developed, usually by a team that meets once a week to assess the next move. The optimizing principle here is to harbor from the bankruptcy proceeding the real assets of the corporation, the real estate, hotels, and other assets, so that the carry-forward tax loss from the years of bankruptcy can be applied to shelter income from these assets once the bankruptcy is ended. It is here that top real estate and insurance men are engaged.

Richard Dicker, former vice president and assistant general counsel of the Equitable Life Assurance Society of America, was one of the key architects of the internal reconstruction period. Dicker, who saw service in corporation liquidations under Jesse Jones of the Roosevelt Administration's Reconstruction Finance Corporation, put together "the Friday group," a body of fifteen major creditors and three court-appointed trustees so named for their weekly planning meetings.

Dicker is now the chairman of the new post-bankruptcy Penn Central. He recently told a financial journal, "I think we're going to do a helluva job turning Penn Central into a dynamic growth company.' It was Dicker that brought in Victor Palmieri, a professional realtor from Philadelphia, to sell off parts of the company's real estate. Both Palmieri and recently retired Penn Central chairman Frank E. Loy came from O'Melveny & Myers, the Los Angeles law firm that specializes in asset-stripping.

In 1973, Palmieri was offered, and accepted, a contract to sell real estate for the monthly fee of $52,000 plus 1 percent commission on the sale price.

Recently, Palmieri agreed to limit his total remuneration from the Penn Central to $26 million.

WMB managers must have a certain flair for showmanship. The early period of Penn Central internal reorganization was, as Dicker explained, "a time of physical and financial pandemonium, and the first year of trusteeship was agony." Bond holders and particularly leasor obligation holders must be convinced that the trustees are doing their best to resolve the bankruptcy, but that they should also be prepared to take what they get. This will discourage stockholder committees and stockholder suits that could affect the WMB timetable and produce courtroom revelations.

In this period, there will be any number of mini-crises, flareups, disputes, harsh language and admonitions to "get back and work together." Especially in the case of the Penn Central, the drama was heightened not only by the sword of abandonment hanging over the heads of shippers and localities but also the very real day-to-day disruption of the railroad system.

On May 17, 1974, a forest fire confined to an area just under the Penn Central bridge over the Hudson River at Poughkeepsie, New York, burned the bridge pilings, causing the railroad to embargo the bridge. Being bankrupt, the railroad said it had no funds to rebuild the pilings and freight was—and still is—rerouted to the Selkirk Bridge, just south of Albany, New York. That is, 100 miles to the north. As a result freight traffic from New Haven to the Allentown, Pennsylvania yards which took between two and two and a half days, now takes six to seven days, or nearly two weeks round trip. Not only are numerous shippers cut off, but freight car use-efficiency over that stretch has been cut by two-thirds.

At the Allentown yards, the major interchange between the Jersey Central and Reading railroads, two trainmasters with 20 years experience each were replaced by seven business school graduates, each of whom had the right to issue train orders after one week of training at the Penn Central training center in Selkirk. The confusion at Allentown is echoed at the New York end, where lighterage across New York Bay has been discontinued, forcing New York and Long Island bound goods on a three day journey north to the Selkirk bridge, thence back south to New York City.

Generally speaking, there is an advantage to this absurd state of affairs. Increasing operating losses will encourage pessimism among users and creditors and also enlarge carry forward tax losses to be used after bankruptcy terminates.

The exact course of the bankruptcy cannot be predicted. There are two alternatives from which various "mixes" can result: either a government-created operating company—run "for profit" if that pleases legislators—or at the other extreme, large-scale abandon-

The Penn Central profit picture

ASSETS	
Current Assets Real estate, wax museums, amusement parks, coal, oil, oil equipment, not including assets subject to Assets Disposition Program	**$1.0 billion**
Carry Forward Tax Loss Shelter All estimated future income through 1985 included under this category	**$1.5 billion**
Assets Disposition Program Hotel and other properties to be sold under court bankruptcy plan	**$0.7 billion**
Valuation Case Proceeds Proceeds of sale of railroad to Conrail (now in litigation): $3 billion anticipated compromise between Penn Central demand of $7 billion and government offer of $.6 billion ($0.9 billion subbtracted for debt payment).	**$2.1 billion**
SAVINGS	
Conrail and Amtrack Expenditures Government-adopted expenses of Penn Central and 15 subsidiaries plus estimated local subsidies (not including outlays beyond October, 1978)	**$2 billion**
Unpaid or Reduced Taxes	**$0.5 billion**
TOTAL REALIZED FROM BANKRUPTCY	**$7.8 billion**

ment and route redivision among remaining railroads.

The first is exemplified by the creation of Conrail, which took over Penn Central railroad operations on April 1, 1976. Conrail, after pouring in $3.2 billion to keep the system operating, is threatening both to close down 6,000 miles of track and to lose another $1.4 billion through the year 1983. These expenditures are a major saving to the bankrupt railroad.

The second route is exemplified by the Rock Island Railroad. In this case, the Rock Island is to be liquidated, its most profitable lines bought by other railroads for nickels and dimes, and the rest abandoned. The Rock's major shareholder and bondholder, Henry Crown, will walk away with millions in carry-forward tax losses to shelter the enormous gains he expects from the merger of his St. Louis-San Francisco line with the Burlington Northern.

Since an inflow of funds is required regardless of eventual disposition, the threat of selling the operating company for scrap or abandoning overwhelming portions of track must be convincingly made. Legislators are moved by the prospect of having major local industries left without transportation, or mountains of grain filling the main street of farm towns. Usually the first time that this threat becomes real is when the bankruptcy judge finds that the railroad cannot be organized out of bankruptcy in its present form.

When Philadelphis U.S. District Court Judge John P. Fullam made such a finding in the Penn Central case, Congress was galvanized to produce a handout several billions larger than the one that Nixon correctly assumed they would have spurned two years earlier.

WMB managers are responsible for working directly with the judge, offering full cooperation and needed documentation and pointing out to the press that it is not they, the managers, but the judge who deserves credit for a successful bankruptcy.

The fundamental success of a WMB is tested in this period, with the court playing a major role; it depends ultimately on producing a scenario so large and so complicated that even if small creditors, local legislators, or suppliers perceive certain elements of the scenario, no one will discover the whole thing. Some may complain that Victor Palmieri is making too much on his real estate sales, that the railroad is being mismanaged in one locality or another, that Goldman Sachs broke the law, or that former Penn Central chiefs "mismanaged" the line, but no one should ever piece these parts together.

It is now that the new reorganized company is ready to emerge. The fourth phase of a WMB is realization, when sheltered assets like the Penn Central's Edgington Oil Company, Buckeye Pipeline, Arvida Corporation (real estate), Great Southwest Corporation (real estate and amusement parks) and other Pennco entities and new acquisitions like the Marathon Manufacturing Co., are matched with the carry-forward tax losses. When Penn Central stock went on sale following its October 28, 1978 emergence from bankruptcy, *Dun's Review* commented, "Spurred by investment dollars from abroad, the action in Penn Central stock was brisk;" market analysts estimate the greatest problem facing Penn Central CEO Richard Dicker is using up his full $1.5 billion in carry forward tax losses before they expire in the coming years. In any case, the nearest thing to a railroad the Penn Central now operates is a roller coaster.

— *Leif Johnson*

Permindex assassination networks 'alive and well'

High level sources in France have reported to *Executive Intelligence Review* that the Permindex assassination network, responsible for over 30 assassination attempts against Charles de Gaulle and the assassinations of President John F. Kennedy, Martin Luther King and Robert F. Kennedy, is "alive and well." They fear that the current targets of this experienced and very well connected network of killers may include French President Giscard d'Estaing, French Foreign Minister François-Poncet and leading figures in the Mexican government, including President Lopez Portillo.

These political leaders have been targeted because of their current aggressive organizing efforts on behalf of a European Monetary System now on the verge of destroying International Monetary Fund "conditionalities" as the ruling principle of international credit relations.

Among the central figures in the assassination network is Jacques Soustelle, a founder of the Secret Army Organization (OAS), the 1950s and 1960s right-wing terrorist organization behind the de Gaulle assassination attempts and at least one NATO-endorsed attempted coup d'etat against the French Republic in 1962. Soustelle is described by sources as "the man who likes to kill."

Soustelle also maintains an advisory position in the government of Giscard d'Estaing on Latin American policy. This "inside" position is one principal cause for concern among French intelligence circles. Recently, Soustelle spent several weeks in Mexico, consulting with leaders of that country's business community. Reportedly, the trip functioned in part as a cover of convenience for Soustelle's plotting with another element within the Permindex machine, the Monterrey group of right-wing oligarchs and "social engineers" affiliated with the Mont Pelerin Society. Soustelle received a large amount of cash from the Monterrey circle, presumably to launch a new wave of targeted political terrorism.

Among the Paris-based individuals now linked with Soustelle in gearing up the deadly Permindex bureau are:

- Maurice Faure, a member of the Brandt Commission of the World Bank; and a personal advisor to Socialist François Mitterand;
- Pierre Uri, an official of the Lazard Freres Bank in Paris and an associate of the Atlantic Institute;
- Avi Primor, reportedly the director of the Israeli Intelligence (Mossad) operations in France and the designated controller over all Zionist activities in that country;
- Antoine Pinay, another former member of the OAS, a 1950s finance minister of France, and now a close associate of Bavarian Franz Joseph Strauss.

What is Permindex?

All of these individuals have a long track record of working on behalf of the European oligarchy and its various financial and political institutions. However, these names have generally not been publicly associated with Permindex. In fact, very little has been said about Permindex since the flurry of exposés in the mid-1960s forced that "company" to shut down its activities in Western Europe.

Permindex was established in 1958, nominally as an international trading company arranging trade expositions and managing real estate projects housing corporate management offices. The founder of Permindex was Major Louis Mortimer Bloomfield, a personal protégé of British Special Operations Executive head Sir William Stephenson. Bloomfield, in addition to having a pivotal position within the FBI Division Five and the Office of Naval Intelligence, was a leading financial conduit for the Meyer Lansky-run International narcotics cartel. Among the leading shareholders in Permindex were mob attorney Roy M. Cohn; George Mantello, an attorney for the Italian Black Nobility House of Savoy; Ferencz Nagy, the former pro-Hitler President of wartime Hungary; and Tibor Rosenbaum, the 1960s director of Israeli Mossad operations in Western Europe (based out of his Meyer Lansky-connected Geneva bank).

It has been documented by French government sources, as well as by New Orleans District Attorney Jim Garrison that Permindex was the financial conduit and contractor of record for all of the above-cited assassination operations. The implications of the Permindex organization's reconstitution cannot be overlooked by any international security service.

—*Jeffrey Steinberg*

Meany to retire and Kirkland to go for austerity

George Meany has informed the AFL-CIO Executive Council that he will step down as federation president when his term expires at the end of this year.

The announcement clears the way for the federation's takeover by Lane Kirkland, the New York Council on Foreign Relations member who is also Secretary Treasurer of the AFL-CIO. It comes as Kirkland and his cohorts at the CFR were putting the finishing touches on what is in fact a transitional, post-Carter austerity program.

The Meany retirement announcement had been anticipated for some time. Despite press reports, the 84-year-old Meany's failing health was not the primary reason for the expected ascension of Kirkland to power. Sources close to the CFR say that these networks wanted "their boy Lane" in the top position in the AFL-CIO well before the 1980 presidential elections get into full swing. Kirkland is slated to play a major role in the political maneuvering that will accompany the accelerating collapse of the Carter presidency and the deteriorating U.S. economic picture. Meany's physical infirmities merely facilitated the changeover.

More than a new president

The maneuvering is already taking place. Meany's announcement that he would not seek reelection as the federation's president this November came at an extraordinary AFL-CIO executive council meeting. It was called to approve a new anti-inflation austerity program hammered out by Kirkland and members of the Carter administration, including inflation czar Alfred Kahn and Treasury Secretary William Miller.

The centerpiece of the plan is a new 15-member economic tripartite advisory board, consisting of representatives of business, labor, and government that will revise the Carter administration's "7 percent" wage-price guideline proposal. The panel, whose members have not been announced, will be chaired by former Ford administration Labor Secretary John Dunlop, whom many labor leaders mistakenly call their "friend" and who ran Nixon's wage-price control program.

Kirkland hailed the new agreement as part of a broader unspecified accord on economic policy that puts fighting inflation—imposing austerity—as the number one national priority. An official AFL-CIO policy statement released at the council meeting described the reasoning behind Kirkland's "accord": "This will mean a period of austerity for Americans—individual and collective sacrifices for a time—so that we then enjoy the greater bounty of our land in the years to come..."

Reportedly, the Carter administration has added a sweetener to get labor and industry support for the plan. According to the *New York Times*, the administration plans to make a major concession on the wage-price guideline, removing sanctions from violators.

Chamber of Commerce head Lesher has attacked the plan as giving too much power to labor. The Teamsters union and the Autoworkers Union are reportedly amenable to the plan.

Who has Kirkland's ear?

George Meany and Lane Kirkland both come from the right-wing Anglophile Social Democrats U.S.A. network that dominates the AFL-CIO's inner policy-making councils. There is, however, a distinction to be made between the two.

Meany, whose career as a New York plumber has always been greatly exaggerated, is typical of what is commonly referred to as the labor bureaucrat. He rose through the ranks by making deals, especially with the traditionalist leadership within the building trades. This has meant that Meany often must deliver favors to the building trades leadership and others and that he could not stray too far from a basic commitment to economic growth and technological progress.

Nonetheless, there was always a nagging feeling within CFR leadership circles that Meany, with his ties to noncontrolled sections of labor, could not be trusted, especially on domestic policy questions.

Kirkland is a different creature. He is a CFR-created synthetic labor leader. Kirkland has been a CFR protégé since his post-World War II sojourn at Georgetown University's Foreign Service School. After being insinuated into the labor movement through a small maritime union, Kirkland was pushed up the ladder in the AFL-CIO bureaucracy by deals engineered by the CFR.

Kirkland will do whatever the CFR tells him.

—L. Wolfe

WORLD TRADE REVIEW

New trade deals

PRINCIPALS	PROJECT/NATURE OF DEAL	COST	FINANCING	STATUS
Argentina from West Germany	Atomic Energy Commission buys from Kraftwerke Union (KWU) a heavy-water nuclear power station. Canadians lose bid to remain Argentina's nuclear supplier. Sulzer (Switz.) will provide heavy water plant.	DM 5 bn for power station; SF 2 bn for fuel plant		I
Japan from U.S.	Nippon Airways will buy 40 Boeing 767 jets beginning in spring 1982.	$1.556 bn		Nippon announcement
USSR from U.S./Japan	Armco Steel Co. and Nippon Steel Co. will build a steel plant in Novolipetsk (300 miles from Moscow).	$200 mn. plus		
Nigeria from Italy	Technimont, engineering subsidiary of Montedison, will build a propylene plant at Warri in Nigeria.	$80 mn		Contract awarded
Pakistan from Netherlands/ U.K.	Pakistan concludes exploration agreement with Royal Dutch Shell.	$76.5 mn		
Saudi Arabia from U.S.	Martin Marietta will build a solar energy generating plant near Riyadh, as part of a 5-year, $100 million U.S.-Saudi research program.	$16.5 mn		Contract awarded
USSR from France	Escoffier Company has sold two machine tools for producing parts to the Soviet nuclear industry.	$1.2 mn		
Nigeria from Italy	AGIP, a subsidiary of ENI, has signed a new oil exploration and production-sharing agreement with the Nigerian government.			
Italy from UAE	Bilateral oil supply agreement for ENI (state-owned).			II

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

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

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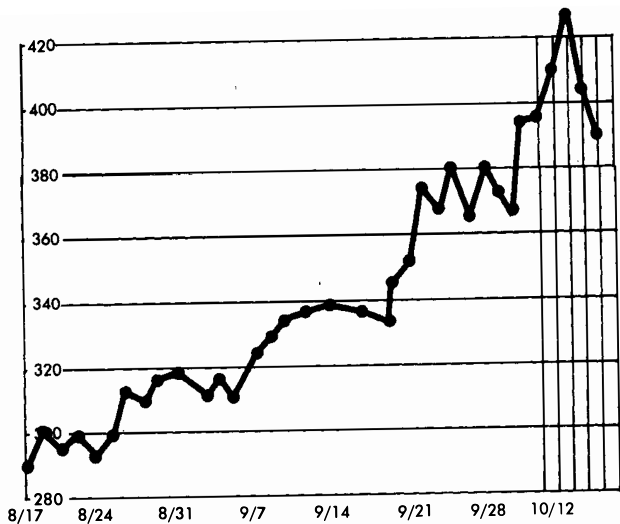
Gold

London afternoon fixing

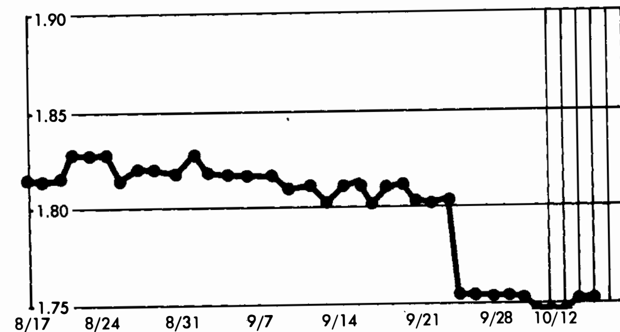
October 5	397.25
8	414.75
9	426.00
10	402.00
11	384.00



The dollar in deutschemarks

New York late afternoon

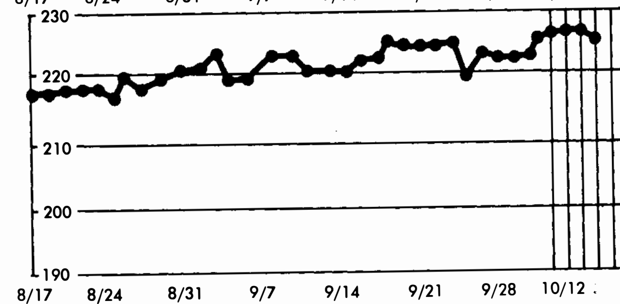
October 4	1.7370
5	1.7370
8	1.7368
9	1.7565
10	1.7575



The dollar in yen

New York late afternoon

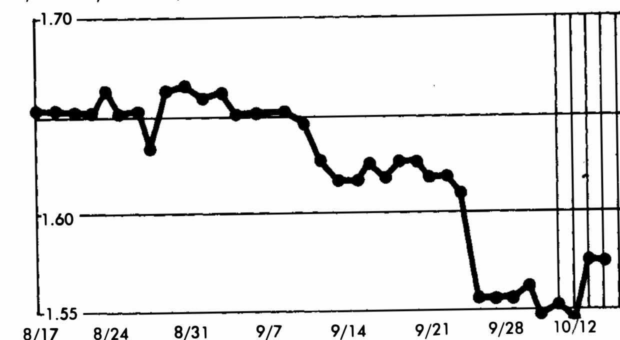
October 4	223.15
5	224.60
8	225.14
9	225.00
10	224.20



The dollar in Swiss francs

New York late afternoon

October 4	1.5495
5	1.5550
8	1.5460
9	1.5735
10	1.5760



The British pound in dollars

New York late afternoon

October 4	2.2100
5	1.1950
8	2.1975
9	2.1880
10	2.1850