



The Phyllis Schlafly Report



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Selling the Rope To The Soviets

In the years of the Cold War, anti-Communist speakers would frequently quote Nicolai Lenin's prediction that Western businessmen would sell the Soviets the rope they would use to hang the capitalist system. Senator Henry M. Jackson recently told the Senate Permanent Subcommittee on Investigations: "The United States and its allies have been selling the rope to the Soviet bloc. What we haven't sold or given away, they have stolen."

A few feeble announcements have come out of the White House implying that technology shipments to the Soviet Union are being stopped. But U.S. shipments to build up the Soviet war machine have been a mighty river, and most of it is still flowing.

Two years ago, the Soviets bought navigation and electronic orientation devices from a U.S. firm. The technology that came with them is now being used to help Russian planes and ships track U.S. submarines.

A U.S. corporation sold the Soviets a large number of high-precision ballbearing devices which the Soviets used to develop highly accurate guidance systems for missiles and enabled the Soviets to put MIRVs into assembly-line production. It will now cost the U.S. taxpayers some \$30 billion to offset the Soviets' MIRV capability which they could not have achieved without our high technology.

The Gorky auto works, run with U.S. computers, makes amphibious assault vehicles and military trucks as well as civilian cars. American electronics, supposedly bought for civilian air-navigation use, have been converted to use in computers for missile guidance.

The Vnukovo Airport traffic control system in Moscow, built with U.S. high-performance computers, is so complex and sophisticated that it can detect airborne objects without receiving a radio signal, can compute how fast the object is going, and can predict where it will be several minutes later. Known as the "en route" system, the Moscow system is far more advanced than the most widely used air traffic control systems, which depend on receiving radio signals from approaching aircraft. The military potential of "en route" is self-evident.

Some American firms simply get conned by Soviet advance men. U.S. businessmen appear to be just as gullible in dealing with Soviet trade negotiations as the U.S. State Department is in dealing with Soviet diplomatic (or SALT) negotiators.

The Soviets created a bidding war for wide-bodied jet airplanes among three U.S. companies. In their ea-

gerness to nail down what they thought would be a profitable contract, the American firms handed over more and more production details. When the Soviets got all the information they needed, they terminated the contract negotiations.

The Soviets conned the West Germans the same way on diesel locomotive technology. Then the Soviets built their own.

Communist so-called "businessmen" (probably technically trained KGB operatives) come to the United States by the thousands. According to Senator Henry M. Jackson (D-Wash), "Their usual style is to demand technologically detailed proposals of the U.S. firms with which they want to do business. Our companies are badgered into complying with the Soviets in the hope of exclusive, big sales. Typically, after getting the basic plans and technical information, the Soviet-bloc representatives agree only to a relatively small sale."

U.S.-Soviet exchange programs are always a one-way street. Russian "students" come here to study, for example, the chemistry of fuel-air explosives; American students go to Russia to study literature, history, music and ballet.

The Apollo-Soyuz space linkup in 1975 is a good example of the racketry of U.S.-U.S.S.R. "cooperation." The Russians learned all about our most advanced space technology; we learned nothing useful.

Technology Transfers to the Soviets

Enormous reams of newsprint and TV time have been consumed with the supposedly bold actions the Carter Administration has taken against the Soviet Union in boycotting the Olympics and imposing the grain embargo. But the continuing receipt of U.S. high technology is worth a thousand times more to the Soviets than sports or food.

Sometimes the Soviets buy it, sometimes they steal it, sometimes they are given it free for the asking; but one way or the other the Soviets are building up their military forces and industrial plant by their secret weapon: U.S. technology.

There are four principal methods by which the U.S.S.R. obtains both the hardware and the know-how for its military-industrial complex: exploiting political decisions by U.S. Commerce Department officials who are pursuing detente; student exchange programs under which Soviet scientists are given access to U.S. scientific and engineering data; illegal actions by U.S.

corporations eager to make a fast buck even at the expense of national security; and clandestine espionage.

After the Nixon Administration adopted the policy to pursue detente and a SALT I treaty, Congress replaced the Export Control Act of 1949 with new legislation encouraging more liberal U.S. trade policy toward Eastern Europe. The Nixon policy was based on the Kissinger concept of "linkage" between our giving the benefits of U.S. manufacturers to the Soviet-Warsaw Pact nations and expecting them to improve their behavior and become more democratic.

Unfortunately, the new legislation gave unrestrained power to the Commerce Department to make the decisions on allowing the export of dual-use goods and technologies, that is, commercial items which also have military significance. The Commerce Department saw its major mission as one to facilitate trade, even in strategic goods; and the policy became one of granting all export licenses except in extraordinary cases.

Most U.S. exports to the East in 1969 were agricultural products plus a few manufactured goods like chemicals, pulp and waste paper. By 1980, however, U.S. exports to European Communist countries consisted of computers, machine tools, chemical processes, semi-conductors, array transform processors, and turnkey plants.

Dozens of devious bureaucratic directives were the devices by which the Commerce Department stretched and bent the law out of shape to accommodate the policy of promoting "trade" with the Communists at all costs. Commerce progressively removed items from the control lists and abused the criterion of "foreign availability," that is, if the item is available from any other country, the U.S. should sell it, too.

The most shocking example of what went wrong with our export controls was the Zil truck complex, for which exports have been consistently approved even though Commerce had information that this Soviet plant was producing not only military trucks but missile launchers. The whistle was blown on Zil by Lawrence J. Brady, Deputy Director of the Office of Export Administration, who was rewarded for his concern by being demoted and harassed by his Commerce Department superiors.

American companies sold more than \$1.5 billion worth of equipment and engineering data to the Soviets for the Kama River truck plant, which the Russians promised would be merely a civilian facility. What trucks do you think carried the Soviet troops into Afghanistan? Trucks from the U.S.-built Kama plant, of course.

The licensing of computers for export is probably the most sensitive area of export controls because they are essential to modern weaponry as well as modern industry. The Soviets were generations behind the U.S. in building computers, but U.S. companies have been falling all over themselves to try to help the Soviets to catch up. Nobody knows how many computers have been exported to the Soviet Union or what they are being used for.

Other technology transferred to the U.S.S.R. includes highly sophisticated mirrors for use in super-weapon space lasers, advanced computer technology with a wide variety of military applications such as missile guidance, integrated semi-conductors and transistors which can be used in military communications, and infra-red detectors which can be used in spy satellites.

"Everybody" Can't Sell the Soviets What We Sell

"Everybody's doing it" is the standard excuse offered by the sinner to excuse his sin. Group responsibility, egged on by peer pressure, is presumed to provide the fig leaf to hide individual guilt for a wide variety of sins: adultery, alcohol, drugs, gambling, lynchings, illegal discriminations, cheating on income tax, cheating your employer or employee, political bribes, Watergate, or Abscam.

Likewise, "everybody's doing it" is the slogan with which U.S. businesses justify selling high technology to the Soviet Union. They say, "If we don't sell it, other Western countries will; we'll lose the profit but the Soviets will acquire the strategic goods regardless."

The kernel of truth which that argument may have in a few instances has been ballooned with so much hot air, incompetent research, and downright misrepresentation that it should be recognized as false. Most of the U.S. high technology which the Soviets have gotten from us could not have been acquired from other countries in the ready-to-use form in which we shipped it.

The Commerce Department, which has charge of issuing export licenses, has converted the "everybody's doing it" rationalization into bureaucratic jargon: "foreign availability." The Commerce Department came up with the policy that, if an item has the magic quality called "foreign availability," then the license should be issued to a U.S. firm to export it in order to beat the "foreigners" out of the sale.

Quite apart from the lack of patriotism, this policy can't even stand up against factual, pragmatic criteria. Just because some component parts of a plant or machine may exist separately in foreign countries, that is no justification for allowing a U.S. firm to ship the Soviets an entire turnkey plant or setting up and serving a sophisticated machine or computer.

The Commerce Department recently licensed an entire steel plant for export to the U.S.S.R. because the plant's components had "foreign availability." However, if the Soviets were to try to buy the components from other countries, (a) it would take them years, and (b) the Soviets would not have the know-how to put them together.

American businesses, using tremendous capital investment, years of research and integrated experimentation in a free-enterprise environment, have built fantastically efficient plants and sophisticated machines. The Soviets simply do not have the necessary know-how to construct the interfaces for computers or to achieve the smooth-functioning technical complementarity which U.S. businesses have been able to attain over years of research and development, honed by the competitive system.

The Commerce Department in 1978 licensed a computer-controlled electron beam welder because of its alleged "foreign availability." In fact, this type of sophisticated drill-bit technology was available from other countries only in very inferior quality and amounts. The tungsten carbide element of this technology could be easily diverted to military use.

In 1978, 861 exports destined for the U.S.S.R. were approved and only 20 applications were denied. Even though the Commerce Department's policy of granting licenses is so pro-export that very little is barred, there are many illegal shipments.

U.S. companies sold the Soviets precision laser mirrors, claimed by their manufacturer to be "the best in the world." Some experts believe that the mirrors are now in use in Soviet space satellites, as well as at Moscow's Physics Institute or Lebedev Institute where they can be used to make laser weapons.

One U.S. firm shipped oscilloscopes, digital computers and micro-circuits for computers to affiliate companies in Austria and West Germany. This hardware was then diverted to foreign trade organizations of the U.S.S.R.

Another U.S. firm diverted \$300,000 worth of semi-conductor equipment to the Soviet Union through dummy firms in Canada which then reexported it to Switzerland where it was transferred to a Soviet firm. Another U.S. firm illegally hand-carried technology to the Bulgarian Embassy in London for eventual delivery to the Soviet Union.

The Freedom of Information Act should enable us to find out adequate information about which U.S. firms are shipping to the Soviet bloc, what they are selling, and how it can be used to build up the Soviet war machine. But the Commerce Department refuses to comply with this Act on the excuse that this information "would expose many of these firms to adverse business and other pressures by various individuals and groups that disagree with the government's decision to authorize them to export certain commodities or to certain destinations such as the Soviet Union." M. Stanton Evans and the National Journalism Center should be commended for filing suit to require the Commerce Department to comply with the Freedom of Information Act.

Trading Jobs With the Russians

It's bad enough when American taxpayers are forced to finance the export of jobs to Western nations, but it is incredible that we should be forced to finance the export of jobs to the Soviet Union. Yet the State-Commerce Department policy of detente and subsidized trade is shoring up the Soviet economic system, developing new Russian industries with U.S. technology and credits so the Soviets will enjoy full employment, and giving the Kremlin the leverage to throw Americans out of their jobs.

In 1971 the Soviet Union started a program of building 40 large ammonia plants to be completed by 1982. Russia began exporting ammonia to the United States in 1976. By 1978 the Russians exported 300,000 short tons, and in 1979 they exported one million tons to the United States. The 1980 figure is expected to be 1.5 million tons and the 1981 figure, two million.

The Russians have had no problem stealing the ammonia market away from U.S. producers. The Russians offer 10-year contracts with prices fixed during the first three years and a promise not to raise the price more than 3 percent after that.

Since no U.S. ammonia producer can meet the Russian price or future guarantees, 29 anhydrous ammonia plants have closed in the United States in the last two years. One of the major ammonia producers, Agrico of Tulsa, saw its profits decreased \$92.3 million in just one year.

How can Russia undersell American ammonia plants? The U.S.S.R. is not a free market economy; the government operates state monopolies and can set the price wherever it chooses for economic or political advantage. But that's not the only reason.

It turns out that Occidental Petroleum, Inc., a \$5.4 billion company of California, was granted the exclusive right to sell Russian-produced ammonia in the United States. Occidental's chief executive officer and guiding force is Armand Hammer who lists himself in Who's Who as "active in U.S.-U.S.S.R. trade negotiations."

Don't get the idea that the "trade" promoted by Occidental is mutual, reciprocal, the result of hard bargaining, or handled by Occidental on a philanthropic basis. It is highly profitable for those who promote it, but the U.S. taxpayer foots the bill and the U.S. worker lays his job on the line.

The ammonia deal would never have gotten off the ground as a good business investment by Occidental. Loans to the Soviet Union of \$900 million from the Export-Import Bank of the United States and a group of U.S. and foreign banks enabled Russia to construct various fertilizer activities, including pipeline and storage tanks. The Russians are now capturing an estimated 85 percent of the world ammonia market.

When the Russian ammonia imports began to close U.S. plants, a group of ammonia companies filed a petition with the U.S. International Trade Commission asking the ITC to use its legal powers to impose a tariff on Russian ammonia exports to the United States. Occidental denies that it has disrupted the market because only 2.8 million tons were imported out of the 22 million tons used.

If the Russians can export 2.8 million tons, they can control the market because they can keep the price so low that no domestic plants can match it. The Russians will then be able to control the ammonia market like OPEC controls the oil market.

Senator Henry Bellmon argues that this would expose the United States to a "virulent form of extortion" because "without nitrogen-based fertilizer, our food production will be severely reduced. Bread lines will far outreach gas lines." Bellmon cited a CIA report which warned that U.S. farmers should not depend on Russian ammonia for fertilizer.

Free Federal Bucks

What do the letters FFB mean to you? Officially, they stand for Federal Financing Bank, but colloquially they stand for Free Federal Bucks.

FFB is an obscure, off-budget bank in the U.S. Treasury Department, with only ten fulltime employees. It serves as a conduit for your tax dollars being funnelled into the hands of eager borrowers, leaving the FFB with \$65 billion in outstanding IOUs. Yes, you read that correctly. It's billion, not million. The FFB's loan portfolio is larger even than that of the Bank of America, the world's largest bank.

There are many differences, however, between the FFB and the Bank of America. Bank of America lends money at prevailing interest rates, while FFB lends at bargain rates. When loans go sour, Bank of America's stockholders take the loss for their officers' bad business judgment, but FFB just pays its loss out of your tax dollars.

When Bank of America makes a loan, the applicant must justify his creditworthiness, and the loan officer must be able to defend the decision to grant the loan. FFB, on the other hand, is called upon to justify any decision to *deny* a loan. As a result, no loan request has ever been turned down, according to Bank Secretary Roland Cook.

FFB loans included \$366 million to Turkey, which is in the bottom five in a ranking of creditworthiness of 93 nations; \$430 million to the U.S. Railway Association (Conrail), which lost \$483 million last year; \$55 million to two railroads which are both in bankruptcy; \$177 million to the bankrupt Washington D.C. subway system; \$140 million to Morocco; and \$1.1 billion to the Student Loan Marketing Association, which has a shockingly high default rate.

The FFB was set up in 1974 as an effort to control and consolidate federal credit programs and make them more cost-efficient. Its chief advocate was Paul Volcker, then Under Secretary of the Treasury for monetary affairs, and now the Federal Reserve Board chairman. He argued that FFB would be merely a "pass-through" for federal credit and therefore should be outside the regular federal budget.

Originally, Congress put a \$15 billion ceiling on the amount of bonds FFB could issue and have outstanding at any one time. However, the FFB bonds didn't sell, and the FFB turned to another section of the law which allowed it to borrow directly from the U.S. Treasury. That section imposed no limits.

Not only is the present total of \$65 billion four times what Congress originally contemplated for FFB, but its existence outside the federal budget severs responsibility for its actions and conceals and understates the size of the federal budget. Both factors contribute to inflation and the push for higher interest rates.

FFB is in a favored position because it has control of a mind-boggling amount of money but, according to a Congressional Budget Office analysis, is not subject to the "discipline and controls" of the regular budgetary process. In other words, if you think the federal budget is wasting your tax dollars, that's nothing to how your money is handled by FFB.

In practice, FFB is a device under which federal departments can "arrange" for loans to favored corporations, citizens, or foreign countries, but not have the loan appear as a budget outlay in its own department where it would come under Congressional or budgetary scrutiny. The U.S. Treasury forks over the cash (your money), and the loan is then file-drawer-ed in FFB.

The Congressional Budget Office said that in FY 1979 "more than \$15 billion in federal credit activities were made to appear as if they didn't exist" because of FFB operations. An audit by the respected firm of Peat, Marwick, Mitchell & Co. reported that oversight of the loan program is "scanty and inadequate."

While federal deficits have been around for many years, the phenomenal growth of FFB just during the past five years is cause for alarm in itself. The solution urged by the General Accounting Office and others is to put FFB in the federal budget.

A better solution is to eliminate this secret cause of inflation. Why should ten unelected, hidden bureaucrats have the power to create \$65 billion of inflationary dollars which are a cause of our rising prices?

U.S. Dollars vs. Overseas Dollars

It isn't the decline in the value of the U.S. dollar on foreign money markets that is causing economic woes to American citizens; it's the inflation at home. Yet the Carter Administration appears to prefer to shore up the overseas dollar at the expense of the domestic dollar.

According to Lyle H. Kennedy II, a respected investment counselor, this is another example of a wrong

money policy that rips off the U.S. taxpayers while bailing out the bankers and others who have indulged in too much speculation in global currency markets.

It is true, as news reports tell us almost daily, that the value of the U.S. dollar is low in terms of the German mark and the Japanese yen. But when our Treasury tries to increase the value of our overseas dollar by buying German marks and Japanese yen, according to Kennedy, that helps Germany and Japan at the cost of risking a dangerous recession at home.

It is not the duty of the American taxpayers to pull the chestnuts out of the fire of those who are stuck with too many overseas dollars. American taxpayers should rank higher in our scale of priorities and sympathies. Kennedy charges that politicians are bailing out bad overseas investments instead of fighting inflation at home.

"The more the dollar is worth abroad, the less effectively American companies can compete in world markets," says Kennedy. Although a cheap dollar makes the price of imported oil higher, cheaper dollars greatly help American exports such as farm products, tractors and automobiles.

Kennedy has an impressive background as an analyst and investment advisor to blue chip companies and now has his own business in Connecticut serving individual investors. He is the grandson of the founder of the Wall Street Analyst, one of the few publications that forecast the 1929 stock market crash, and his mother was the first woman partner in a New York Stock Exchange member firm.

It is difficult to avoid the conclusion that the money policies of our country are consistently designed to benefit foreigners at the expense of Americans. The chief beneficiaries of the Panama Treaty ratified in April 1978 are the giant U.S. and foreign banks which would have lost some \$2 billion from their foolish loans to Panama if we had not given Panama the windfall advantage of being able to collect the toll receipts from ships going through our Canal.

Despite all the budget cutbacks in other spending programs, U.S. foreign aid to 115 countries continues. Will U.S. money policies ever be designed to benefit Americans rather than foreigners?

Phyllis Schlafly is the co-author of five books on defense and foreign policy: *Kissinger on the Couch* (1975) and *Ambush at Vladivostok* (1976) covering the Kissinger years, *The Gravediggers* (1964), *Strike From Space* (1965), and *The Betrayers* (1968) covering the McNamara years. Her first book, *A Choice Not An Echo* (1964), sold three million copies without a single advertisement. Her other books are *Safe Not Sorry* (1967), *Mindszenty the Man* (1972), and *The Power of the Positive Woman* (1977).

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