

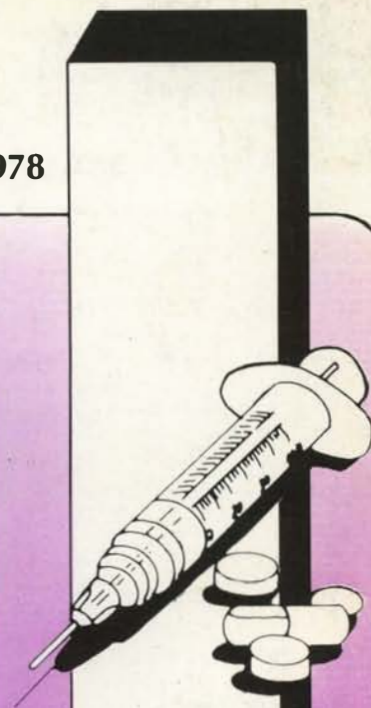
EXECUTIVE INTELLIGENCE REVIEW

Oct. 31 - Nov. 6, 1978

Dope, Inc. —

The biggest business of all

How the 'HongShang' and other British banks run the drug trade



U.S. steel
\$25 billion



U.S. auto
\$40 billion



U.S. construction
\$150 billion

The drug trade
\$200 billion

[THIS PAGE IS INTENTIONALLY BLANK]

EXECUTIVE INTELLIGENCE REVIEW

Editor-in-chief

Fernando Quijano

Managing Editor

Tessa DeCarlo

Contributing Editors

Lyndon H. LaRouche Jr.

Nancy Spannaus

Criton Zoakos

Christopher White

International

Nora Hamerman

U.S. Report

Stephen Pepper

Konstantin George

Economics

David Goldman

Counterintelligence

Jeffrey Steinberg

Military Intelligence

Paul Goldstein

Europe

Vivian Zoakos

Science & Technology

Morris Levitt

Soviet Sector

Rachel Berthoff

Middle East

Robert Dreyfuss

Asia

Daniel Sneider

Africa

Douglas DeGroot

Latin America

Robyn Quijano

Dennis Small

Law

Felice Gelman

Press

Fay Sober

Energy

William Engdahl

Production Editor

Deborah Asch

Executive Intelligence Review

is published by New Solidarity

International Press Service

P.O. Box 1922, GPO,

New York City, N.Y. 10001

Subscriptions by mail

for the U.S.:

3 months—\$125,

6 months—\$225,

1 year—\$400.

ISSN 0 146-9614

Dope, Inc.— the biggest business of all



The evidence is in: the illegal drug “industry” is run as one single world operation, from the poppy fields in Asia to the heroin sold on a ghetto street. In our SPECIAL REPORT, how British financial circles and the British and allied monarchies run the \$200 billion a year net drug trade, the biggest business in the world, drawn from a forthcoming report now being prepared by researchers of the U.S. Labor Party. This detailed, evidentiary coverage, pulled together for submission to the Federal Reserve, presents the indisputable facts on who’s behind the drug plague and how the “dirty money” economy acts as one of the most powerful political forces on the international scene.

On the cover: how the business of illegal drugs and other related illicit payments stacks up against some of this country’s biggest legitimate industries, as measured by recent Commerce Department figures.

IN THIS ISSUE

Carter policy disaster

The U.S. dollar is reeling following President Carter's unveiling of his "anti-inflation" program, but the problem is not that Carter's program lacks "teeth," Lyndon H. LaRouche, Jr. explains in our U.S. REPORT. Analyzing the debacles pervading all aspects of U.S. policy-making, LaRouche points to the ascendancy of British agent Henry Kissinger over both the Carter White House and the Republican National Committee. Under Kissinger's tutelage, he reports, the Carter Administration's GOP-backed economic program — to trigger a U.S. depression — is based on the "model" already showcased in Nazi Germany. page 27

European central bank in 1979?

Even as President Carter is plunging the U.S. into the worst policy crisis in its history, news from Europe indicates that the new European Monetary System will be in operation on an even bigger and better scale than anticipated by early next year. A full report in our ECONOMICS section discusses the implications, including former *Wall Street Journal* staffer Jude Wanniski's analysis of how the EMS provides a real solution to the U.S.'s inflation problem. Plus how the EMS is taking shape, and dismay in the United Kingdom. page 19

EXECUTIVE INTELLIGENCE REVIEW

THIS WEEK

- The President calls for collapse** 5
Will his "anti-inflation" speech wake the U.S. to the European Monetary System alternative?
- Arab unity 'beyond comprehension' of Camp David's architects** 6
- The truth about drug decrim.** 7

SPECIAL REPORT

- Dope, Inc. — it's the biggest business of all** 8
How the HongShang and other British banks run the drug trade
1. Drugs and banking: the world picture 8
2. From opium to dirty money 15
3. How the drug trade is financed: the HongShang ... 16

ECONOMICS

- A 'Bank of Europe' for 1979?** 19
- 'Consensus of despair' in Britain** 20
- British 'sick man' ready for the undertaker?** 21
Plus a look at Bernard Nossiter's astounding attempt to puff up the gutted British economy as a model 'post-industrial' paradise
- Facts on the European Monetary Fund** 24
An antidote by Lyndon H. LaRouche to some of the lying reports being circulated to American leaders
- Wanniski: EMS an answer to inflation** 26

U.S. REPORT

- Carter's economic war against the U.S.** 27
LaRouche on how Henry Kissinger took control of the President
- Discarding the 'China card' for a U.S. war buildup.** ... 28
- New anti-inflation czar admires the Nazis' economy.** .. 35

ENERGY

- PRM-41 and the great Mexican oil grab** 37
*Economic and civil war plotted:
a secret presidential policy review*
- Mexican oil a "national security threat"** 40
*Exclusive: a Kennedy-linked think-tanker
floats scenario for possible border war*

COUNTERINTELLIGENCE

- Capriccio Siciliano** 41
*Part two of the Soviets' explosive investigation
of Peking drugs, the Mafia, and
the Kennedy assassination*

INTERNATIONAL

- Soviets link SALT to East-West trade** 47
- Europe revolts against U.S. confrontationism** 48
*Including excerpts from West German
Defense Minister Apel's sharp warning to NATO*

THIRD WORLD

- For Republic of Korea, growth is independence** 50
*A first-hand report that clears away
some of the myths of U.S. Asia policy*
- 'We are investing in the human being'** 54
An exclusive interview with a top economic planner
- 'We will have no choice
but to rely on nuclear'** 55
*An exclusive interview with a leading Korean
official on energy policy*

Korea's fight for independence

Korea missed an opportunity to industrialize 100 years ago, and must make up for it now, a spokesman for the Republic of Korea told correspondent Peter Ennis, who just completed a tour there. In exclusive coverage in our THIRD WORLD section, Ennis reports that press concentration on "Koreagate" and "human rights" presents a vastly misleading picture of a country that is striving to become a full-fledged member of the developed-sector community.

page 50

COMING SOON

•A full report on the trouble in Iran — who's behind it and what's at stake for the Shah, the region, and the world strategic picture.

•A carefully documented survey of how and why America's trade with the Soviet sector is being strangled, and what the enormous cost to our economy is. Included: a point by point analysis of the East bloc debt picture that contrasts a well-publicized recent Brookings Institution report with reality.

•There are plans afoot to bring down the U.S. banking system in what would be the biggest financial panic in our history. Contributing editor Lyndon H. LaRouche, the chairman of the U.S. Labor Party, exposes the plot and its British architects in our next issue, and proposes an "open conspiracy" of truth to defeat it.

EXECUTIVE INTELLIGENCE REVIEW

... GIVES YOU

the intelligence you need to be making policy whether your responsibilities are in government, the labor movement, business, education, or elsewhere.

... COVERED WHAT WAS

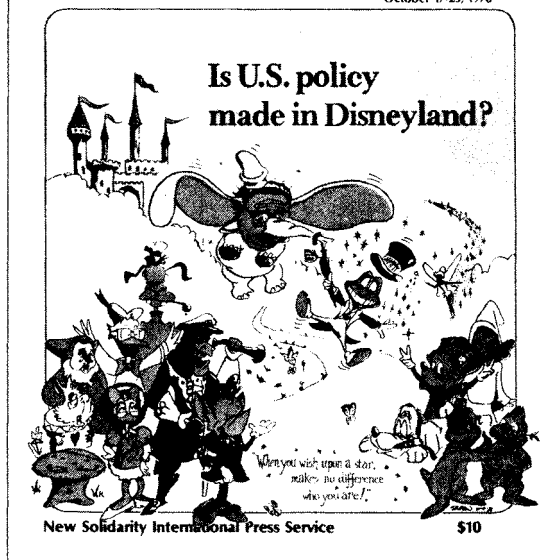
really negotiated at the July 1978 Bremen and Bonn summits of industrialized countries . . . and how the European Monetary System launched at Bremen was *modeled* on a 1975 proposal by the American political economist Lyndon H. LaRouche, Jr. as the "seed-crystal" of a new, development-oriented world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

... REPORTED HOW

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

EXECUTIVE INTELLIGENCE REVIEW

October 17-21, 1978



... DOCUMENTED

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

PRICE CHART

Area	3 months	6 months	1 year
U.S., Canada & Mexico	\$125	\$225	\$400
Central America, West Indies, Venezuela & Colombia	\$135	\$245	\$450
West Europe, South America, Mediterranean & North Africa	\$140	\$255	\$470
All other countries plus South Africa	\$145	\$265	\$490

3 months 6 months 1 year

Name

Address

City State Zip

Signature

amount enclosed

Make checks payable to:
New Solidarity International Press Service
G.P.O. Box 1922, New York, N.Y. 10001

The President calls for collapse

Will 'anti-inflation' speech wake up U.S. business and labor?

While President Carter was making his Churchillian pitch for "a time of national austerity" to the U.S. population last week, Federal Reserve Chairman G. William Miller twisted his tourniquet on the U.S. economy with another hike in U.S. interest rates. In response, the dollar plunged to new historic lows on the foreign exchange markets.

President Carter's speech may have the shock effect of belatedly convincing the most perspicacious of American business leaders that to save the dollar and the economy they must force a U.S. linkup with the new global monetary order emerging around the institutional core of the European Monetary System. In fact, given the timing of Carter's disastrous "anti-inflation" speech, the idea of American collaboration with the new European Monetary System and the trouncing of the drug-running banks which are opposing its implementation (see our SPECIAL REPORT) are emerging as the two leading issues in the Nov. 7 elections.

Unfortunately, precious little time remains to bring this central debate openly before the American public. The ostensible focus of electioneering around the country is "tax cuts," "environmentalism," and other "fiscal austerity" issues manipulated by the same Henry Kissinger-linked circles who dictated President Carter's lamentable Oct. 24 speech.

As readers of this *Review* know, the EMS and its related European Monetary Fund launched last July are geared to channeling billions of currently speculative Eurodollars

into high-technology productive development projects, especially in the Third World.

Latest reports from the West German and French framers of the EMS indicate that they are preparing a "European development bank" utilizing their revalued gold reserves as the credit institution of the new economic order (see ECONOMICS). Such an initiative would be a striking lesson to the U.S. in applied economics of precisely the sort theorized and practiced by America's first Secretary of the Treasury Alexander Hamilton.

The economic debacle

The week's grisly economic news included reports of a "leveling off" in third-quarter GNP growth and corporate profits, drops in September durable goods orders and mid-October car sales, and predictions of an imminent "easing" in the housing boom. These developments are merely the first wave of fall-out from Miller's interest rate policy. Last week a 10.25 percent prime lending rate became general across the country, as the Fed allowed the federal funds rate, the key overnight interbank rate, to trade as high as nine and seven-eighths percent. This continuing trend in interest rates virtually ensures a new recession some time next year.

Take the case of the housing market: 1978 housing starts are still expected to come close to last year's 2 million level. Where the industry goes from there is anyone's guess. Last June 1 the Federal Home Loan Bank Board began allowing savings and loan

institutions to issue large six-month savings certificates pegged at one-quarter percentage point above the Treasury bill rate. The success of this effort to keep the S&Ls flush with mortgage money and prevent the crippling disintermediation which took place during the last recession is illusory, however. Usury laws in effect in many states put a ceiling on what the savings banks are allowed to charge on mortgage loans, and the banks are not eager to extend mortgages at a loss. Even where usury laws don't apply, there are limits to what prospective homeowners can pay in the way of mortgage costs.

Recession or "cool down?"

The latest economic statistics are being variously interpreted as welcome news that the economy is "cooling off" or as warning signals that the economy is headed for a severe recession, depending on the observer's persuasion. The debate over Miller's interest rate policy and its consequences for the economy, which is shaping up along money center versus regional bank lines, was evident at the American Bankers Convention in Honolulu last week.

J. Dewey Daane, a former Fed member and current officer of Nashville's Commerce Union Bank expressed the concerns of many regional bankers when he warned that any time next year the U.S. could suddenly find itself "in the early stages of a recession as severe or more severe than the recession of 1973-75," as accelerating inflation translates into "a deterrent rather than a spur to con-

sumer spending." Henry Kaufman, partner of Solomon Brothers in New York, predicted, "Our credit markets are about to experience the most dramatic increase in interest rates since the cyclical rise began in late 1976," and he put the blame on "ineffectual" government policy against inflation.

The fight over interest rate policy is going on right inside the Fed board as well. According to a variety of sources, there is a difference of opinion within the Fed over whether to engineer a "big guns" hike in the prime rate, by raising the federal funds rate from the current 9 percent level to the 12-13 percent range — and the prime rate to 14 percent or above, or whether to continue with step-by-step strangulation. Fed Chairman Miller is busily covering his tracks. Recently he told a colloquium on monetary policy in Rhode Island, "We at the Fed have to be strong enough to withstand pressure to do more...If we become impatient and go from gradualism to shock treatment in our inflation fight, we would raise the possibility of a severe recession."

But *someone* at the Fed is trying to administer shock treatment to the economy. The Federal Open Market Committee held its monthly meeting on monetary policy on Oct. 17, amid predictions that this meeting would be a decisive one; and the Fed funds rate shortly bobbed up to 9 percent. On Wednesday Federal Reserve Board Governor Philip Jackson, a mortgage banker who knows the consequences of higher interest rates on the housing market, resigned from the Fed. Oct. 19 Governor Philip Coldwell called on the Carter Administration to accept slower economic growth next year as the trade off for arresting inflation.

The plan for enforcement

In his "anti-inflation" address to the nation, Carter signaled his intention to do his part to carry out the British gameplan to destroy the U.S. economy. More significant than the wage-price guidelines

themselves, was Carter's promise to use the club of "free enterprise" to enforce them and future "anti-inflation" measures. Carter hinted that the Administration would hold the threat of deregulation over the trucking industry (which would lead to a massive shakeout of smaller companies) to force the industry into a confrontation with the Teamsters to hold down the size of the Master Freight contract which is to be negotiated early next year. To carry out the "anti-inflation"

policy, the Council on Wage and Price Stability, under the direction of Brookings technocrat Barry Bosworth, will be given greater powers. Alfred Kahn, the deregulator from the Civil Aeronautics Board, and an open admirer of the "capacity for belt tightening and for vigorous reorganization" in the German economy *from 1933 on*, has been appointed to replace Ambassador Robert Strauss as anti-inflation czar.

— Lydia Dittler

Camp David architects: Arab unity 'beyond comprehension'

Preparations for the upcoming Nov. 2 Arab summit in Baghdad, with an agenda of organizing opposition to President Sadat of Egypt, have succeeded in putting a timely roadblock on the path to implementing the "separate Israeli-Egyptian peace" rigged at the September Camp David meeting.

Called by Iraq and supported by Saudi Arabia and every Arab state, the summit is being supported by concerted action among France, West Germany and the Soviet Union, which have arranged a quiet division of labor in supplanting the dangerous Camp David scenario by an economic renaissance based on high-technology development.

These countries have their sights set on rapid implementation of the new European Monetary System, and view the stabilization and development of the Middle East as critical to their plans.

The feature of this collaboration which dumbfounded the cheerleaders of Camp David as a "U.S. policy triumph" which would "drive the Soviets out of the Middle East," was the Oct. 25-26 Baghdad reconciliation between President Assad of Syria and the Iraqi leadership, ending 12 years of bitter hos-

tility between the two countries. In what the *Christian Science Monitor* confessed was "beyond the comprehension of Middle East specialists," (i.e., Henry Kissinger and President Jimmy Carter's like-minded Rasputins), the two countries are now forming the basis for a Fertile Crescent political-economic-military pact among Iraq, Syria, Jordan, Lebanon, and the Palestine Liberation Organization (PLO).

The division of labor is working as follows:

France has assumed the political leadership for the anti-Camp David operation. Closely coordinating with the Soviet Union, whose Foreign Minister Andrei Gromyko arrived in Paris Oct. 26 to announce "identical views" with France on the Middle East, the French have undertaken joint efforts with the Vatican to stabilize Lebanon. The French publicly blame Israel and Lebanese warlord Camille Chamoun for the Lebanon crisis, and have been overtly acting to supplant British influence in Iraq and the Persian Gulf.

The West Germans under Chancellor Schmidt have taken up the leadership in the economic area.

Both Syria and Saudi Arabia are talking to Bonn about nuclear power and research deals, and a number of other West German commitments have been made in order to support a massive economic development plan for the area. On Oct. 30, King Hussein of Jordan will arrive in Bonn for key talks on the eve of the Arab summit.

Both Schmidt and Giscard have rejected the Camp David formula and called for a comprehensive settlement based on a Palestinian state.

The Soviet Union has made it clear that it is ready to defend the Arabs militarily, especially Syria and Iraq, if the Israel extremists attempt to foment a war in that area. Syria has warned Israel and the United States not to challenge Soviet "interests" in the area.

Camp David: a dead duck

With the success of the Baghdad summit and its supporters virtually assured, the stalled Egypt-Israel treaty talks are near collapse. Arab diplomatic sources say Egypt — aware of the growing Arab pressure — gradually began to insist on a stronger linkage between the Sinai treaty and the key Palestinian issue.

The Israelis, sensing that their cherished separate peace, originally agreed to by Egypt's Sadat under duress at the Camp David session, was dissipating, began hardening their line. The Israeli right rammed through an "amendment" to the U.S.-proposed Egypt-Israel treaty draft that explicitly ruled out linkage. Prime Minister Begin underlined the point that Israel would never abandon the West Bank and East Jerusalem by announcing that Israel was expanding its illegal settlements on the West Bank. In a crowing insult to the Arabs, the Israelis announced that they were moving several government offices into occupied East Jerusalem.

At that point, Egypt announced

from Cairo that it was considering calling its delegation home from Washington and breaking off the talks: U.S. Secretary of State Vance issued a lame statement warning Israel that the U.S. is "deeply disturbed" over the "very serious" Israeli moves.

With Camp David in shambles, the key may be in the hands of the PLO. The Iraq-Syria reconciliation brings together the two wings of the Organization, and informed

sources report the PLO is considering declaring a "government-in-exile," long considered a precondition for convening a Geneva conference.

Lending credence to that view, both the Soviet Union and the EEC again called for Geneva, as PLO chief Arafat, who received four letters from President Brezhnev in the past two weeks, flew off to Moscow for political talks.

— Robert Dreyfuss

The truth about drug decrim

The Oct. 16 release of a 1978 New York State study showing that "heavy" use of marijuana by students in grades 7 through 12 has increased more than **300 percent** since possession of "small" amounts of marijuana was decriminalized in the state 15 months ago has already caused an uproar in upstate New York.

The 1978 report of the New York State Substance Abuse Services Office was initially previewed by the *Buffalo Evening Courier* in a four-part series which decried the increase of drug use in the area.

The Substance Abuse Services bombshell is a followup study on one done by the same agency in 1975. In the 1975 survey, **one** out of every 17 students in grades 7 through 12 (**6 percent**) smoked marijuana once a week. The 1978 study shows that **one** out of every **six** students (**17 percent**) now smokes marijuana twice a week. The 6 to 17 percent jump is even more drastic because "heavy" use of marijuana was redefined in the 1978 report from once to twice per week.

Even more damning, the new study shows a startling increase in the rate of heavy use of cocaine, hashish, heroin and illegally acquired cough medicine by New

York students, which is directly correlated with the availability of hard drugs since the New York State legislature decriminalized marijuana 15 months ago. The New York State Office of Substance Abuse Services surveyed more than 35,000 students from 146 public schools and 48 parochial schools. The *Buffalo Courier Express*, in its own survey of the Buffalo area, independently found that **50 percent** of all high school students in the Buffalo area use marijuana "heavily."

The New York State Substance Abuse Services Report thus provides a nationally important piece of incontrovertible scientific evidence that decriminalization of marijuana has resulted in vastly increased use of **both marijuana and hard drugs** by youth. The 300 percent increase in marijuana use since decriminalization represents a dramatic indictment of the pot lobby, as New York State's decrim law had been touted as a national model by the National Organization for the Reform of Marijuana Laws (NORML). As the *Buffalo Courier Express* concluded its series editorially, "It is time for a reexamination of the drug laws. . . ."

— Anita Gallagher

Dope, Inc. — it's the biggest

How the 'HongShang' and other British banks run

Although most politicians have been slow to realize it, a wave of outrage against illegal narcotics is sweeping the country. The outrage is growing as evidence rolls out that, far from being a dirty little back-street operation, drug dealing is the biggest business in the world.

It doesn't make it any less dirty, but the industry is by no means little: Drugs, Inc. is financed by some of the biggest and most prestigious banks in the world. Like any other industry, it needs overdrafts, seasonal credit lines, local rediscounting agencies. Like any other industry, it must produce evidence of good receivables, marketable inventory, reliable supply and distribution networks.

But more than that, the well-connected banks behind this operation are the same agencies that run most international "dirty money" speculation with their ill-gotten gain. If you think drugs is a hot issue

now, wait for the banking story to start making its appearance.

The Executive Intelligence Review has obtained the material here from a wide-ranging and comprehensive report now being prepared for mass circulation by the U.S. Labor Party. The evidence included in the report is also being presented by the party to Federal Reserve hearings on the Hong Kong and Shanghai Banking Corp.'s proposed takeover of the Marine Midland. As can be seen from the extracts here, the HongShang oversees the portfolio, ably assisted by the labyrinthine networks of overseas Chinese bourgeois who owe their economic status to almost a century and a half of British banking dominance in the Far East.

The highlights of the document we print here will be the breaking story in a few months in your daily newspaper.

1. Drugs and banking: the world picture

Assembled as one picture, the hard evidence available from Drug Enforcement Administration and other law-enforcement bodies leaves only one possible conclusion: the drug "industry" is run as a single integrated world operation, from the opium poppy to the nickel bag of heroin sold on an inner-city streetcorner. Not only is illegal drug traffic under the control of a single world network, but opiates traffic in particular is without doubt the best controlled production and distribution system of any commodity in international trade, illegal or legal. De Beers' Central Selling Organization's 85 percent control of world diamond wholesaling — an example not irrelevant to the drug trade — pales by comparison to the orderly marketing arrangements for heroin demonstrated by the hardest figures available.

Investigators are daunted by the fact that the solution to the problem is so damned obvious. Imagine Edgar Allan Poe's fictional purloined letter, photographically enlarged to 8 by 20 feet, and used as

wallpaper; then, imagine the French police attempting to find it with magnifying glasses.

When we speak of the drug-related illegal economy — for drugs are the pivot on which most other illegal activity turns—we are talking of a \$200 billion per year business, *the biggest business in the world*. That is net, not gross, annual sales of drugs, plus related illicit payments.

How can such activity avoid sticking out wildly, especially in areas of concentration such as the Far East? The British monarchy organized most of the Far East to conform to the drug traffic! How can \$200 billion in illegal payments get through the international banking system past the eyes of law enforcement authorities? The answer is: the Anglo-Dutch monarchies' "offshore" banking system. This and related precious metals and gems trade were designed around illegal money in the first place!

Mere consideration of the obvious — or what will quickly become obvious when the evidence of the

business of all

the drug trade

public record is assembled below — gives the financial specialist the equivalent of an inner-ear disorder. The financial world, remember, is one in which the stock market will do flips over a measly few hundred million dollars' difference in the weekly reported figures for the American money supply. Although most of the necessary evidence has long been available, both investigators and the public prefer to see world drug traffic and related illegal activity as a montage of movie villains: Far Eastern warlords, free-lance smugglers, jowly gangsters, and corrupt politicians. Such individuals figure into the world drug traffic, but as the arms and legs of a top-down operation, under the immediate control of the British and allied monarchies.

The most striking single fact for this conclusion is that the price series for heroin at retail level in major American cities shows virtually total uniformity. Law enforcement records show that, within the acceptable range of 3 to 6 percent purity at the street level, the price of heroin has been constant between widely disparate distribution points during the past ten years. Arrests of local distribution chains, internecine warfare among drug traffickers, interdiction of smuggling routes, the virtual elimination of the Turkish opium supply after 1972, the scouring of Asian and European transit points, and local changes in political and growing conditions in the Golden Triangle growing area, all have failed to have any effect on the single, world heroin price! The few exceptions prove the rule, and consist mainly of sharp temporary drops in some local retail prices, attributed to occasional free-lance supply through returning Vietnam War veterans and the like.

Where does it go?

Closely related to the striking uniformity of inner-city heroin prices at retail level in the United States is the gigantic discrepancy between known levels of opium production for illegal purposes and consumption by the world's addict population. Fairly reliable statistical data are available for both. Within great

margins of fluctuation depending on weather, enforcement, and other conditions, available supply exceeds demand by roughly a factor of ten.

Approximately 700 tons annually are produced and transported out of the world's largest opium-growing area, the Golden Triangle. Seven hundred tons of raw opium, in the form of balls of opium gum, are the equivalent of about 70 tons of refined heroin, although in practice less than half of this amount is actually refined into heroin; the remainder is sold in the form of either opium or morphine base, largely for smoking purposes, and largely to an addict population in the Orient itself. However, by all estimates of the American addict population, approximately three tons per year of refined heroin are more than sufficient to meet annual consumption "requirements." About that much again is required to maintain all other heroin addicts in the OECD area.

DEA and other official sources affirm the cited production figures through direct monitoring of opium shipments and other sophisticated intelligence methods. Consumption and sales are obviously limited by the possible size and financial resources of the addict population in the advanced sector. To use a rough example: if the full 30,000 kilograms of annual Golden Triangle heroin production obtained the full street price for heroin, the total retail value would be about \$150 billion. But most estimates of annual illegal purchases of retail heroin are under \$15 billion. In short, most of it is never sold, because production capacity is enormous relative to the market's absorption capacity.

What happens to the rest of the heroin? Only a small portion of the total comes into the hands of law enforcement agencies, whose capture of a few pounds of heroin is a matter for celebration. We still must account for tens of tons. The law enforcement records indicate that the drug is warehoused in huge stockpiles against contingencies and to prevent oversupply on the market. For example, during the height of the crackdown on Southeast Asia heroin traffic in 1972 (immediately after U.S. troops withdrew), a single refinery captured by Thai police had on hand a stockpile of 3,000 kilograms, roughly

one-tenth of Southeast Asian production. At the time, 21 refineries were known to be operational in the area.

The law enforcement record shows that Drugs, Inc. does its best to avoid such mishaps through careful research — on the streets of American cities — which is transmitted back to the poppy fields. Montagnard tribesmen in the Burmese or Yunnan Province hills do not plant what they feel like, but what they are told to plant. This facet of the cycle production is well known to law enforcement investigators. If for some reason the market research is off, chaos will ensue, as it did in 1972, when the Golden Triangle yielded a bumper harvest, after wholesalers told poppy-growing peasants to increase their acreage by 50 to 100 percent. The wholesalers counted on the continuing exponential expansion of heroin consumption among American soldiers in Vietnam. Nixon pulled the rug out from under them by pulling the troops out, leaving the world heroin market in an unprecedented state of oversupply.

Reckless price cutting and competition for sales outlets in this case might have provoked serious consequences for Drugs, Inc., were it not for "government regulatory intervention." The Thai government stepped in and sold 22 tons of opium to the United States. The opium was burned in a public ceremony attended by giggling Thai officials, restoring "equilibrium" to the market. (In any case, the Thais were only repeating the action of the Imperial Chinese in 1839, who purchased and burned more than 1,000 tons of opium, to the great relief of oversupplied British traders, who sent special fleets to India to bring additional opium back to get the Imperial Government's attractive price.)

Once world illegal opiates traffic comes under scrutiny as an integrated, centralized "monopoly," the discrepancy between the huge oversupply and relatively restricted demand presents no further difficulties. We are looking at an "industry" based on the same principles as the world diamond cartel controlled by De Beers, or the so-called club among leading pharmaceutical manufacturers. Diamond production capacity is so large relative to the absorption capacity of the world market that De Beers's Central Selling Organization, which runs 85 percent of world diamond wholesale trade, limits availability in order to obtain essentially the price it wants. Pharmaceuticals are, ironically, an even better example. Since the knowledge to manufacture most of the commonly used prescription drugs is widespread among the pharmaceutical companies, and since the costs of production are insignificant compared to the retail prices of most drugs, elaborate legal arrangements are necessary to prevent a price collapse. Notoriously, the profits of the pharmaceutical industry owe not to chemists but to patent lawyers.

Heroin trade is the ideal commodity cartel; its price is more reliably controlled than that of crude oil, and

its world volume of sales, at roughly \$25 billion for heroin alone and considerably more for smoking-opium and other derivatives, is substantially higher than that of most of the commodities UNCTAD is presently considering for cartelization. A couple of comparisons are in order. At the present world gold price of \$225 per troy ounce, annual world gold mining production (outside the Soviet Union) yields less than \$7 billion. During 1977, after an unprecedented price run-up, world output of diamonds yielded less than \$5 billion.

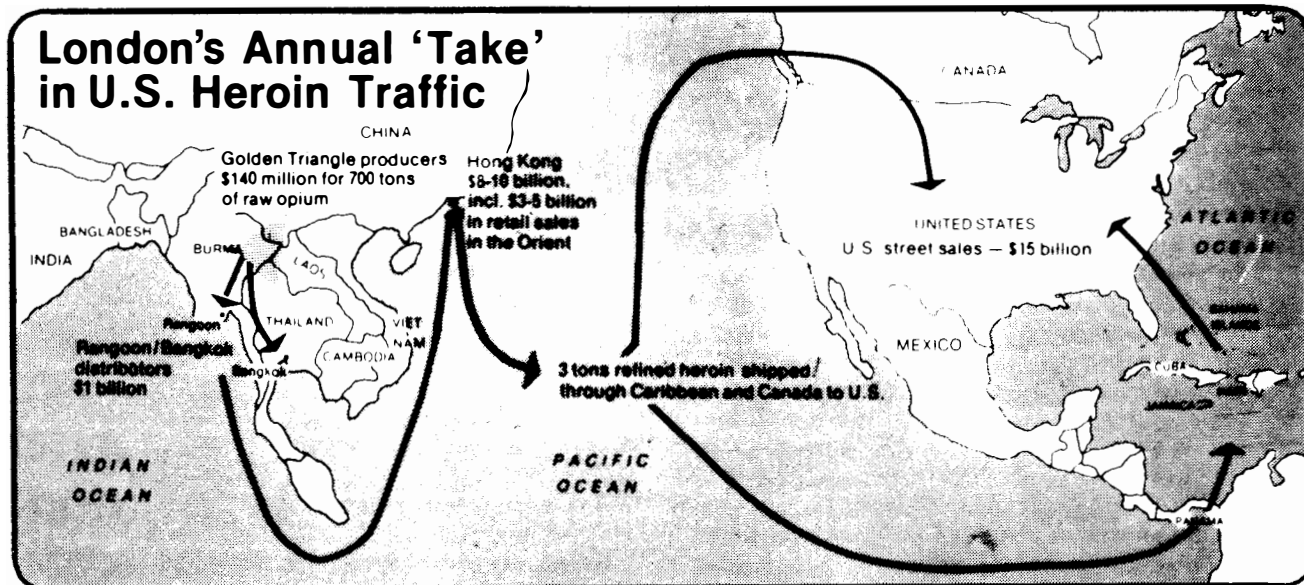
Allowing for the relative ease with which a large dollar value of heroin may be transported — the drug is worth at street level 366 times its weight in gold — the worth of the drug trade is nonetheless boggling. It is even more boggling when the retail value in the United States and other OECD countries of nonopiate illegal drugs comes into the picture. For example, the Colombia marijuana crop officially estimated for this year alone carries a retail value of \$40 billion. Since marijuana smoking is so widespread in the OECD countries, there probably exists a much larger market in dollar terms than the relatively restricted market among heroin addicts.

Beyond such examples, no accurate data exist. The best that can be stated is that total world cash flow of illegal drug traffic certainly exceeds \$100 billion, and almost certainly does not exceed \$200 billion.

The \$100 to \$200 billion figure includes heroin, opium, morphine, marijuana, cocaine, so-called hallucinogens, and abuse of otherwise-legal prescription drugs. It does not include proceeds of other drug-related illegal activities, including gambling, theft, prostitution, smuggling, arms traffic, and so forth. It is almost meaningless to assign a total figure to the size of the world's illegal economy. It can only be stated confidently that the illegal economy, whose cornerstone is illegal drug traffic, exceeds the gross national product of most of the OECD countries! That is an extremely conservative projection of the limited hard data available.

To put the matter another way: including all international traffic in controlled substances, including drugs, and also including means of barter for drugs, including gold, diamonds, armaments, and so forth, the \$200 billion international narcotics trade is bigger than the world oil trade. "DOPEC" is bigger than OPEC. World trade volume is a mere trillion dollars.

The question that jumped out of the data earlier was, "How can the heroin price, subject to the vagaries of so many illegal transactions, remain so stable?" The only possible answer that conforms to available hard data is that the traffic is under the control of a cartel run top-down in the precise manner of existing legal models. The question that emerges now is, "How is it possible that \$200 billion and up in dirty money, criss-crossing international borders, can remain outside the control of the law?" Again, only



one possible answer can be admitted: *a huge chunk of international banking and related financial operations have been created solely to manage dirty money. More than that, this chunk of international banking enjoys the sovereign protection of more than a few governments.*

These conclusions are obvious. If the entire resources of the largest private bank in the world, roughly \$70 billion, had no other use but the financing of illegal world drug traffic and related illegal activity, those resources would be insufficient. If the members of the New York Clearinghouse, the richest group of commercial banks in the world, applied their entire \$150 billion lending volume to the illegal economy, the volume might just be sufficient.

In the following sections of this report, the Anglo-Dutch banking operations that control illegal drug and related trade are documented in detail. Below, we will demonstrate through several chains of evidence that this is *the only possible banking network* that could handle the requisite volume of illegal traffic. The Anglo-Dutch oligarchy's banking operations have the following qualifications:

1. They have run the drug trade for a century and a half.
2. They dominate those banking centers closed off to law enforcement agencies.
3. Almost all such "offshore," unregulated banking centers are under the direct political control of the British and Dutch monarchies and their allies.
4. They dominate all banking at the heart of the narcotics traffic: the Hong Kong and Shanghai Bank, created in 1862 to finance the drug trade, is exemplary.
5. They control world trade in gold and diamonds, a

necessary aspect of "hard-commodity" exchange for drugs.

6. They subsume — as documented below — the full array of connections to organized crime, the pro-drug legislative lobby, and all other required elements of distribution, protection, and legal support.

Offshore banking

Financial specialists, who have lived too long with the smell of the West Indies backwaters to mind it any longer, will choke on the above assertion. The general reader, by contrast, only needs to know a few facts in order to realize that something is wrong. All the offshore international banking operations — including the clean side of it — are such a speculative whirlpool that virtually the entire deposit base changes hands every week. Hundreds of billions of dollars, including at least a hundred billion in the offshore centers and further hundreds of billions elsewhere, circle the world through teletyped bank transfers.

No banking reserves are kept on any of this, as insurance against sudden withdrawals; in the United States, by contrast, commercial banks must hold 15 percent of their checking-account balances and 4 percent of their savings balances on reserve. The "offshore" banks just assume that if they are short of cash, they can borrow what they need on the enormous "interbank" market. This mind-boggling financial procedure involves banks lending funds to each other in order to obtain fractional advantages in interest rates. Perhaps 40 percent of the total market in interbank money. Deposit maturities are so short, and money transfers are so rapid, that \$50 billion changes

hands every business day through the New York banks' clearinghouse system alone.

The "offshore" banking markets are precisely what the name implies: either Britain's old island colonies refurbished for international banking, or inland feudal relics like Andorra and Liechtenstein. Federal bank regulators will only stare at their shoes when asked what goes on in these places.

American banks do a land-office business in the offshore centers, precisely because no reserves are needed, and every dollar of deposits can be lent out for interest. Currently American banks have over \$35 billion in loans booked through Caribbean offshore islands, more than through their offices in London. Even clean banking operations have moved offshore because present federal banking regulations virtually force them to. The big movement offshore began under the Kennedy Administration, when Anglophile Treasury officials C. Douglas Dillon and Robert V. Roosa railroaded legislation through Congress taxing loans made to foreigners by American banks. The tax did not apply to loans made offshore, so that is where the bankers went. By the time the Dillon-Roosa legislation was lifted in 1974, the banks were "hooked" through the difference in reserve requirements. In a recent interview in *Euro-money* magazine, Citibank's Chairman Walter Wriston denounced the Dillon-Roosa taxes as "a pure gift to London."

According to the estimates of the Bank for International Settlements, the total assets of the so-called Group of Ten nations' offshore banking centers, the unregulated islands and enclaves where "bank inspector" is a dirty word, amount to \$94.454 billion, as of February 1977. The figures break down as follows:

	(in millions)
Andorra.....	\$ 3
Liechtenstein	466
Monaco	48
Vatican	105
Bahamas	35,700
Barbados	70
Bermuda.....	900
Caymans.....	12,200
Netherlands Antilles	1,600
Panama	7,200
Trinidad and Tobago	154
Kuwait, Qatar, UAE.....	3,300
Bahrein, Iran, Iraq, Libya, Oman	9,300
New Hebrides	139
Singapore	10,000
Hong Kong	8,300
Lebanon	392
Liberia.....	4,577
Total.....	\$94,454

The above figures do not show the actual size of the

offshore banking centers, because they include only the assets of branches of banks domiciled in the largest ten industrial countries. They do not include such entities as the three large banks in Thailand's capital, Bangkok, which figure prominently in financing Golden Triangle opium production. Nor do they include thousands of smaller, "offshore" finance companies based only in the offshore centers themselves. Expatriate Chinese banks in the Far East, who have long been known to be a key point of contact with illegal drugs and other contraband traffic in the Far East, also do not show up on these tables; in fact, there is no available data on such institutions at all. Furthermore, the above table does include a great deal of legitimate banking business which American and other industrial-country banks bring to the "offshore" market for tax and other reasons. However, the round figure of \$100 billion is a useful starting point.

Another set of figures, provided in the Bank of England's quarterly report, although it contains the same unwanted additions and deletions, is relevant: it shows the large volume of interchange between London, which in major respects functions as the world's biggest "offshore" center, with the previously-mentioned outposts for illegal money. Unfortunately, the available figures mix in both British banks' dealings and those of American and other banks which have offices in London. The table is provided for purposes of perspective.

Deposits In or Loans From Britain By Overseas Banks (in millions)

	Deposits	Loans
Bahamas	\$3,000	\$6,200
Bermuda.....	262	17
Caymans.....	1,380	1,408
Hong Kong	1,333	1,910
Lebanon	867	16
Liberia.....	---	1
Netherlands Territories	151	83
New Hebrides	13	7
Panama	118	583
Singapore.....	833	3,173
Barbados	---	---
Trinidad and Tobago	179	23
Total	\$8,134	\$13,399

More important than these numbers — which give a meager underestimate of the volume of business in the offshore centers and mix in the legitimate business of American and other institutions — is the political control of the unregulated banking centers. With a very few exceptions, offshore banking as a whole is under the thumb of the Anglo-Dutch oligarchy.

The British preeminence makes the world picture of offshore banking and dirty money more

comprehensible. If the world offshore banking sector appears to run as a single operation under British monarchy control, that is because the same group of people who run it also run the opium traffic, whose proceeds this banking sector was created to handle. One index of British muscle is the following breakdown of the offshore banking centers, comparing the number of banks in each center directly attached to the Royal Institute of International Affairs's governing bodies with the number of other banks in each center:

Offshore Center	RIIA-Linked Banks	Others
Bahamas	23	21
Bermuda	5	0
Antigua	5	0
Barbados	6	3
Cayman Islands	22	12
Trinidad and Tobago	6	3
Netherlands Antilles	10	5
Panama*	9	20
Singapore**	14	20

*The only one of the above *not* under British government control.

**Does not count overseas Chinese banks and other expatriates.

(Source: Polk's Banking Directory)

London and Switzerland are not normally considered offshore banking centers, although in practice both centers function that way. Although Switzerland has signed a treaty with the United States permitting law enforcement officers to investigate and seize funds relating to illegal narcotics traffic (resulting in one recent \$250 million seizure), Swiss banks are still notorious depots for dirty money. However, the Swiss side of the operation, typified by Lombard Odier and Edmond de Rothschild's Bank Privée in Geneva, and the Zionist-controlled Baseler Handelsbank, are more specialized. Their most important activity is conduiting funds for international terrorism. Most recently, European authorities traced the funding of the Aldo Moro assassination through Swiss channels back to Israel.

London is the largest center for Eurodollar banking under the encouragement of the Bank of England, which permits the foreign branches of U.S. and other banks to hold external accounts in London without reserve requirements, and with minimal inspection. At last count, international banks had \$90 billion in assets in London. The Bank of England can do as much or as little as it wants in the way of regulation, under British law. Only occasionally does the Bank of England's iron gauntlet show through the velvet glove.

For self-evident reasons, even the best-protected institutions of the British oligarchy prefer to launder their dirty money through Caribbean, Hong Kong, and similar branch operations, rather than in London itself.

Offshore Centers and Their Political Control

Bahamas. British possession. Virtually no regulation of banks that do not do local business; limited regulation of nonresident banks.

Cayman Islands. British possession; virtually no regulation.

Bermuda. British possession; virtually no regulation.

Hong Kong. British Crown Colony. Regulation of markets by the Hong Kong and Shanghai Bank; no inspection of transactions.

Guernsey. Channel Island, possession of British Crown, not British government; no regulation.

Jersey. Channel Island, possession of British Crown, not British government; no regulation.

Lebanon. Now virtually defunct.

Netherlands Antilles. Dutch monarchy possession; virtually no regulation.

New Hebrides. Newly independent former British colony; no regulation.

Bahrein. Persian Gulf island open to offshore banking recently; regulated loosely by Commission under Bank of England advice.

Panama. Independent; virtually no regulation.

Singapore. Former British colony; virtually no regulation.

Barbados. Former British possession; virtually no regulation.

Trinidad and Tobago. Former British possession; virtually no regulation.

Liechtenstein. Independent principality; Grand Duke is a Black Guelph related to British and Dutch royal families. 25,000 population; 26,000 companies.

Monaco. Independent; Prince is Black Guelph related to British and Dutch royal families.

Because the British suppliers of narcotics have iron-clad control over offshore bank operations, American organized-crime marketers of those narcotics have had a field day in the Cayman Islands and the Bahamas. American drug enforcement authorities know that most of the dirty money arising from the U.S. drug trade and related illegal activities ends up in the Bahamas. There has been, unfortunately, little public heat against the British officials who control the operations. This level of control reaches the flagrant. For example, the chief of all banking regulation and licensing in the Cayman Islands, a close third behind Hong Kong and Macao in the big league of dirty money, is one Mr. Benbow, a retired official of Britain's National Westminster Bank, which shares two directors, J.A.F. Binny and R.J. Dent, with the Hong Kong and Shanghai Bank. Benbow got his present job at the recommendation of the British-influenced International Monetary Fund, according to a source at the IMF's Exchange and Stabilization division. Direct British "hands-on" management of the Caribbean offshore operation dates back to the 1930s, when E.D. Sassoon, Ltd. of Hong Kong — which made its fortune from the opium trade over the preceding century — picked up, moved, and became E.D. Sassoon, Ltd. of the Bahamas.

Virtually the only one of the offshore centers not under *official* British control is Panama; not coincidentally, Panama is the only offshore center where American banks strongly outnumber British banks. That is not to say that Panama is clean; on the contrary, most of the funds derived from the Colombian trade in marijuana and cocaine are laundered through Panama, through the three large Colombian banks resident there. However, American banks have a measure of maneuvering room that they do not have in the Cayman Islands or the Bahamas, under the snooping eyes of the British authorities.

West German banking sources believe that the British banks behind Drugs, Inc. want to move in on Panama and close the gap. The West German sources identify a special feature of the drug-ridden Hong Kong and Shanghai Bank's proposed takeover of a controlling share in New York's \$20 billion Marine Midland Bank: Marine Midland is the transactions agent for the central bank of Panama. All of the national accounts clear through Marine Midland. Should the Hong Kong and Shanghai succeed in acquiring the American bank, it would exercise a decisive margin of control over the Panama offshore market, and bring British control over the offshore centers full circle.

Not coincidentally, a former board member of Marine Midland Bank, Coudert Brothers lawyer Sol Linowitz, negotiated the Carter Administration's recent treaty concerning the Panama Canal.

The following report will concentrate on the Far East offshore banking connection to the drug traffic as a model for the world operation, and follow the trail

back to the controlling centers in London. British control over the world dirty money operation is no secret, and the British-Canadian-Caribbean connection to organized crime in the United States is so thoroughly documented that no doubt need remain. However, it is the Far East that acts as a chokepoint for dirty money, in such volume that it dwarfs legitimate economic activity in the region, and in the British Crown Colony of Hong Kong in particular. Moreover, London has seduced and jostled American banking operations into the Caribbean to such an extent that there is a vast amount of legitimate money mixed in with the proceeds of the drug traffic. However, Hong Kong was set up by the British, literally from bare rock, as a center for the drug trade, and remains to this day purely British, and purely a center for the drug trade. In the Far Eastern example, we can "prove" that Britain (and its Peking allies) run every phase of international drug traffic.

Otherwise, the Drug Enforcement Agency and other law enforcement organizations know how the cycle of dirty money in the United States works. The \$50 billion retail proceeds of the total drug traffic in the United States is partly recycled into the drug operation in the United States itself, with large "offtake" by each level of the crime machine. The net profits, in cash, are laundered through hotels, restaurants, gambling casinos, and sports events — the "corporate profile" of the Max Jacobs family and other footsoldiers of the British drug machine. After the cash is laundered through these nominally legitimate channels, it is transferred to offshore banking operations or their equivalent. Then, according to Drug Enforcement Agency officials, the funds take several quick trips around the world over the telex machines of offshore banks, passing through at least a half dozen, and usually more, different bank accounts and corporate fronts, from the Caymans to Liechtenstein, from Liechtenstein to the Bahamas, from the Bahamas to a "nonresident corporation" in Canada, from Canada to Panama, and so forth. At various points in the process, the funds will purchase diamonds, gold, paintings, or similar portable valuables. At a further point, the valuables will be translated back into cash, eliminating even the trace of a bank transfer. For this reason, the use of undercover agents, in place even at fairly high levels in known branches of narcotics trafficking, has a poor record of detecting either the source or ultimate destination of narcotics-related funds.

Once laundered, the proceeds of the drug traffic and related illegal activities divide into three channels. First, between 10 and 20 percent of the total is recycled back to the opium wholesalers in the Far East and the marijuana wholesalers in the Caribbean and Latin America, constituting the net profits of the wholesale drug trade. A second part is invested in expansion of offshore operations, particularly gambling casinos, resorts, and other profitable operations that are also

useful for further laundering of dirty money. The remainder is reinvested in the United States in "legitimate" racing, gambling, hotels, restaurants, and other business appropriate for cash-laundering and further expansion of the domestic drug traffic.

As noted, Hong Kong and related Far East

operations are the chokepoint in the entire traffic, where dirty money is a way of life. We will focus on the Far East, the point of origin of world heroin traffic, and work backwards through the maze of Drugs, Inc. fronts and subsidiaries, to arrive at the British-controlled syndicates in the United States.

2. From opium to dirty money

The starting point for the drug cash flow is the cash size of the opium and heroin traffic in the Far East itself, before the drugs obtain the stupendous price markups available in Western markets. The price pyramid is known to be the following:

1. Raw opium, the gum of syrup extracted from opium poppies, is produced in the Golden Triangle, the conjunction of the southern border of the People's Republic of China (Yunnan province), and the northern borders of Thailand, Burma, and Laos. The mountainous terrain, largely above 4,000 feet in elevation, provides ideal growing conditions. Mountain peoples, rather than ethnic Chinese (including those in Yunnan province) grow the opium and collect the gum. The merchant purchasing the gum pays roughly \$100 a pound, at collection points such as Lashio or Misai in Burma.

2. By the time the merchant, typically a Yunnanese, has brought the gum by mule train to the triborder area, e.g., Tachilek or Chiengrai in Thailand, the price has doubled, to \$200 a pound. At this point the opium is either refined into heroin at refineries located in the triborder area itself, or earmarked for the large Far Eastern market for smoking opium and related derivatives.

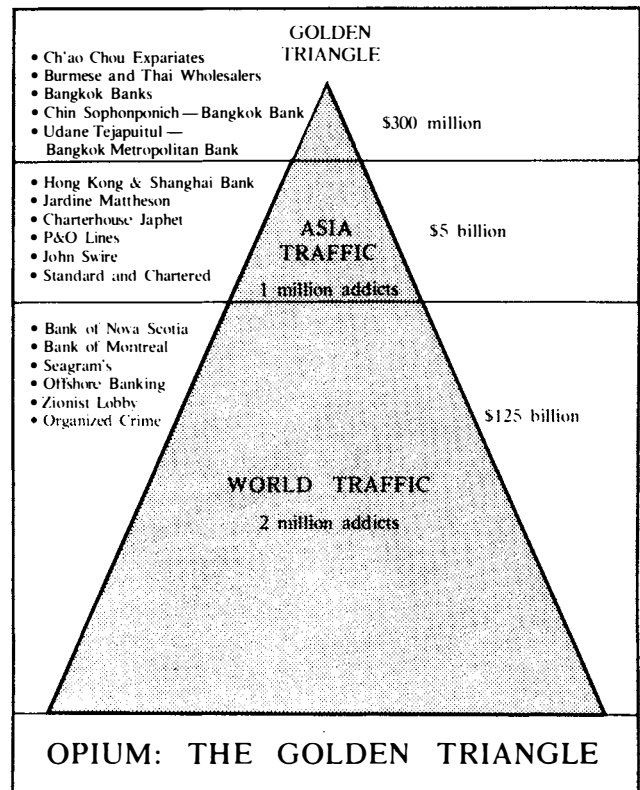
Existing data permit the estimate that a division of an average 700-ton crop into 300 tons for heroin refining and 400 tons for opium shipment for Far Eastern smoking purposes is usual.

The \$200 pound price at the triborder area is the price paid to the local agent by a wholesaler based either in Bangkok, Rangoon, or Hong Kong. Any distinction among these cities is meaningless. The business structure of the area is under the control of two principal groups that straddle the Far East. The first is the old British banks and trading companies, including the HongShang, Jardine Matheson, Charterhouse Japhet, Swire's, and the P&O Lines. The second, their satellites, is the overseas Chinese networks, under the joint control of London and Peking.

The *wholesale* value of the 700 tons of annual opium product in the Golden Triangle, prepaid in the triborder area, is roughly \$280 million. The \$280 million figure, compared with the Gross National Product of Thailand, is considerable; it is like \$35 billion in terms of the American GNP.

3. But this wholesale figure is only a small portion of the cash flow of the Far East drug traffic. The next wholesaler, the Bangkok merchant who buys from the first wholesaler, pays about \$1 billion for the equivalent of 700 tons of opium in the form of either raw opium or refined heroin. This is roughly four times what the opium was worth at the first wholesale round. The majority of production is retailed locally at large markups (although the markups are much smaller than in the case of heroin retailed in Western countries).

While no hard estimates are possible, the cash flow in the Far East related to this first phase of opium production alone could not be less than \$1 billion. That by itself is 15 percent of the estimated assets of foreign banks in Hong Kong, or 10 percent of estimated bank assets of foreign banks in Singapore, or precisely Thailand's 1977 balance of trade deficit! Measured against the size of economic activity in the region,



there is no possible way to chalk these numbers up in the "Errors and Omissions" column. The cash must go through nominally legitimate channels, in such volume that the nominally legitimate channels — like the HongShang — cannot possibly not be witting as to the origin.

Even these numbers do not sufficiently reflect the scale of the *cash flow* derived from crude opium sales alone. It must be added that most of this cash flow is seasonal; virtually all wholesaling must be completed during the two months following the March poppy harvest. Correspondingly, the visible flow of drug-related funds is several times as large during those two months.

4. Finally, the wholesale and local retail cash figures presented above exclude what is possibly the largest component of Far Eastern narcotics money: the reflow of funds back to the Far East from sales made in the West. The narcotics wholesaler in Bangkok or Rangoon or Hong Kong with direct contacts with growers and control of refineries has paid about \$2,000 a pound for the refined heroin. Between him and the streetcorner, the same pound of heroin will undergo three mark-ups of 1,000 percent. Its ultimate retail value (for pure heroin) will be close to \$5 million per kilogram, according to official DEA figures, or *\$2.27 million a pound*, with a total of \$25 billion for Western sales.

What portion of this markup, and in what quantity, accrues to the Far East wholesaler? There is no possible way to estimate this. According to the record of arrests for heroin smuggling, a substantial portion of such smuggling is conducted directly through expatriate Chinese channels, e.g., the Hong Kong-to-Vancouver route, and the notorious activities of Hong

Kong's Seaman's Union. However, it is this markup that pays the wholesaler's out-of-pocket costs, including the original purchase from the highlands merchant, the refining, the huge quantity (perhaps 300 tons annually) of acetic anhydride used in heroin refining, security, bribes, transportation, warehousing, and so forth.

If the annual profit of the Golden Triangle operators is in the range of \$5 billion — or a mere one-fifth of the annual retail sales of heroin in the West — then the total cash flow into the Far East related to drugs is not \$1 billion, as above, but \$6 billion. The actual reflow is probably several times that sum. Some of the \$5 billion reflow, itself a hypothetical and conservative figure, may be banked elsewhere than in the Far East. The comparisons to the size of the region's economic activity become all the more grotesque: Thailand's 1976 total exports were only \$2 billion.

Even the \$6 billion figure does not include the huge Far Eastern market for opium and heroin consumption. Added in, the retail volume brings the total close to \$10 billion — *twice* Hong Kong's money supply!

There is another way to arrive at the same \$10 billion figure: the *official* estimate for bribes paid annually to Hong Kong police is an astonishing *\$1 billion*, more than the annual police budget. From a hard business standpoint, that \$1 billion in payoffs is a major part of the *overhead* cost of both wholesale and retail drug operations in Hong Kong, the area's drug capital. Since the known profit margin in the drug trade is 500 to 1,000 percent, it is fair to state that the \$1 billion figure is no more than 10 percent of local drug revenues. If \$1 billion is 10 percent of the total, the total is \$10 billion.

3. How drug trade is financed: the HongShang

The chain of financial control of world opium traffic begins in Hong Kong, with billions of dollars in Hong Kong dollar loans to expatriate Chinese operators in the drug-growing regions. These expatriates include two of Bangkok's best known bankers, according to American law enforcement files. Hong Kong also provides essential logistical support including:

- (1) Smuggler-sized gold bars, obtainable through Hongkong and Shanghai Bank subsidiaries;
- (2) Diamonds, available through Hong Kong's Anglo-Israeli controlled diamond monopoly; and
- (3) Warehousing facilities, dominated by a subsidiary of the Hong Kong and Shanghai Bank.

Hong Kong and Shanghai Bank is the semi-official central bank for the Crown Colony, regulating general market conditions, holding excess deposits of the myriad smaller banks, providing rediscount facilities, and so forth. Clearly, the Hong Kong and Shanghai Bank is also the financial hydra unifying the pro-

duction, transportation, and distribution of Asia's opium.

Not only does it dominate financial activity in Hong Kong, with 50 percent of total banking business on the island, but "bank and government often work closely together," the *London Financial Times* comments. The Colonial government in Hong Kong makes virtually no statistics on banking activity available. Commenting on the \$8.3 billion figure for Group of Ten bank operations in Hong Kong, the *Financial Times* notes that, "The official figures are also just the tip of an almost certainly greater volume of business, which is conducted by international banks with finance company subsidiaries in Hong Kong, or organized from Hong Kong but routed through entirely offshore accounts in such places as Vila (New Hebrides)." To be precise, there are 213 deposit-taking finance companies in the Colony, as well as 34 local banks and

104 bank representative offices. Over these squats the HongShang.

The essence of the bank's drug-control is its intimate relationship to scores of expatriate Chinese banking families scattered throughout the Far East. The British and Dutch connection to these dates back to the first East India Company penetration of that region. The central banking role of the HongShang expresses an arrangement that grew out of a century of official opium trade, and continues through the present.

First, consider the financial and logistical requirements of the trade. Planning for the March opium harvest begins in September. The Bangkok or Hong Kong drug wholesaler must estimate the size of his market during the next summer, and, after market research is completed, inform his agents in the triborder area. (That market research must come from the United States and other retailers.) They, in turn, will communicate to the Yunnanese and other merchants who operate in the poppy-growing highlands to the north what the market will bear for the next harvest. The merchants then inform the Montagnard peasants what acreage they may plant.

At this point, the wholesaler must consider the following. First, the physical means of payment must be obtained, including American or Soviet armaments, gold in appropriate small-bar or jewelry form, or whatever, and this to the tune of \$140 million worth. (Golden Triangle peasants can't use American dollars.) Thousands of mules and muleteers must be made ready for the treks into the highlands. Bribes must be paid, routes monitored, border conditions observed, smuggling routes secured, contacts opened in the West, and other loose ends secured. The required seed money is in the range of the wholesaler's \$2,000 a pound price for refined heroin.

What portion of the investment is made through "internal resources" of the drug wholesalers, and what portion borrowed, is a matter of guesswork. It is known that a very large amount is borrowed seasonally to finance drug wholesaling, largely from expatriate Ch'ao Chou Chinese banking networks. Since the Ch'ao Chou category includes Thailand's most prestigious bankers, who are known to engage in financing drug traffic, very considerable financial resources are at the traffic's disposal. It is a matter of a 200 percent annual rate of interest — agree, and no questions asked.

Known "angels" of the narcotics trade include Chen Pi Chen, a.k.a. Chin Sophonponich, Chairman of the Board of the Bangkok Bank, with \$5 billion in assets; and Udane Tejaputit, former Chairman of the Board of the Bangkok Metropolitan Bank, with \$2.4 billion in assets. Significantly, Sophonponich, which name itself is a Thai pseudonym, is a Ch'ao Chou Chinese expatriate.

Such scandalous relationships are not much surprise in the region. At the time of the 1973 Thai

coup, the Premier's son and chief of the narcotics bureau, Narong Kittakachorn, was found to be a prominent investor in drug wholesaling.

The annual credit line that must be extended to drug wholesalers, assuming they finance half their operations through credit, probably comes to about \$150 million. Through pure chance, that is the average annual growth of the Bangkok Bank's "Loans and Advances" during each of the last ten years. Of course, Chin Sophonponich competes with many of his Ch'ao Chou colleagues for this lucrative business.

Wherever the Ch'ao Chou expatriate banking community has surfaced in leading positions of influence, Peking, British, and opium trade connections are evident. In 1958, the Thai authorities issued a fraud warrant against Bangkok Bank's Sophonponich. He fled to Peking and remained there until 1965, after which he returned, a deal with the Thai military in hand. According to area sources, Sophonponich still maintains close contact with the Peking regime.

As one among several Bangkok financiers who finance the drug wholesalers in the volume of \$100-200 million per year, Sophonponich's contacts include several names that have frequently appeared on the "Opium Watch List" of American law enforcement agencies: Ying Tsu Li, General Lo, and the brothers Hutien-Hsiang and Hutien-Fa, leading refiners of heroin in the triborder area.

In addition, area sources report that Sophonponich has direct links to the so-called Triads, the expatriate Chinese secret societies that do most of the legwork in the opium traffic.

Yet, Sophonponich is actually nothing more than a subcontractor from the Hong Kong and Shanghai Bank, as we now demonstrate.

Back to the HongShang

Bangkok Bank illustrates the way the chain of financing leads back to the HongShang. Its current asset volume is \$5 billion, much larger than the savings capacity of the area could justify. Banking sources report that most of its credit-generating capacity comes from rediscounting of trade paper in the Singapore and Hong Kong financial markets, and mostly with the HongShang itself. Since the HongShang controls 50 percent of Hong Kong deposits and acts as the ultimate rediscount agency for the entire colony and much of the rest of South Asia, the dependency of the Bangkok Bank and other Thai banks on HongShang is virtually total. Most of the Bangkok Bank's lending volume is subcontracted business, controlled by the HongShang.

The British-Chinese expatriate link goes back as long as the British have been in the Far East. The British organized the systematic colonization of tens of thousands of Chinese expatriates throughout the area, and started them out in the lower levels of

business otherwise conducted by the East India companies and their successors.

Secret societies and compradors

Even where the British displaced early overseas Chinese financial interests from positions they had enjoyed in the pre-colonial period, they left them in local control of such areas as the opium trade. As W.J. Cator notes in his book *The Economic Position of the Chinese in the Netherlands Indies* (pp. 97-98) and Purcell notes in *The Chinese in Malaya* (p. 189), Chinese monopolies of opium and alcohol local distribution continued in many Southeast Asian colonies into the first decades of the 20th century. Colonial powers divested expatriate Chinese merchants of control of many trading monopolies granted by the pre-colonial authorities, but left them in control of gambling and local drug and alcohol distribution because Chinese secret societies were uniquely equipped to handle them.

The secret societies, representing branches of societies operating in southern China, theoretically pursued the aim of their founding — the overthrow of the Manchu Ch'ing Dynasty in Peking. But as time wore on and the regime remained in power, the societies abroad became less interested in the politics of the homeland and more the instruments of overseas economic interests. Anthropologist William Skinner notes in his book, *Chinese Society in Thailand, An Analytical History* (p. 140), that the immigrant secret societies were usually headed by influential monopoly owners — opium traders, keepers of gambling and prostitution houses — who generally used the societies to further the interests of their monopolies.

In other economic sectors as well, it is common knowledge that overseas Chinese business interests were often employed as *compradors*, middlemen in the service of colonial banking and trading operations, indispensable due to their knowledge of the local market and their language abilities. The close economic relationships that certain segments of the Chinese business community enjoy with particularly British banking interests date from that experience.

At every point in the postwar political history of the region, the Chinese expatriate financiers have acted as consistent allies of the British and Dutch. According to standard estimates, Chinese expatriate financiers currently control 60 to 80 percent of the economies of Indonesia, Thailand and Malaysia.

What the size of the expatriate dependency on the Hong Kong financial market is can only be guessed. However, existing financial data show that the Hong Kong financial market is enormously oriented to foreign lending, in roughly the same proportion as the American banking system. One-third of all Hong Kong dollar denominated loans — excluding the so-called "Asiadollar market" — are to foreign

borrowers. Foreign lending stood at HK\$18.47 billion in March 1978, against \$39 million in local loans. (There are about 4.6 Hong Kong dollars to one U.S. dollar.)

Since the borrowers' market for Hong Kong, rather than American, dollars is limited to the areas of the Far East still under British financial sway, the HK\$18.47 billion figure of overseas loans reflects the immense financial dependency of Burma, Thailand, and Malaysia on Hong Kong. The business is largely conducted through Chinese expatriate family ties. Most of Hong Kong's 250 locally registered finance companies, in fact, are owned by Chinese expatriates.

The scale of expatriate Chinese operations, centered in Hong Kong and dependent on the Hong Kong and Shanghai Bank, is gigantic: the overseas Chinese community controls 42 percent of the foreign trade of the Southeast Asian countries, compared to 32 percent of Western business, 18 percent of non-Chinese local firms, and only 8 percent of state-controlled trading companies. As of the most recent figures available, Chinese expatriate investments in the area totaled only slightly less than combined American, Western European, and Japanese investments (although recent Japanese expansion in the area may have shifted the proportion somewhat).

Country	Total Expatriate Chinese Investment (in billions)
Indonesia	\$1.20
Malaysia and Singapore	2.20
Philippines.....	1.00
Thailand*	0.30
Cambodia**	0.12
South Vietnam**	0.25
Total.....	\$5.07

*Does not include investments of "assimilated" Ch'ao Chou bankers such as Udane Tejeipuitul and Chin Sophonponich.

**Current status unknown.

The above figures give only a partial picture of overseas Chinese financier dominance of Southeast Asian economies, because the expatriate Chinese bourgeoisie is overwhelmingly *concentrated* in such strategic sectors as banking, insurance, shipping, warehousing, and other intermediary activities, rather than manufacturing or agriculture.

The activities of the corrupted section of the expatriate Chinese community in Southeast Asia have provoked a long series of clashes with national authorities — who have not generally been successful in limiting illegal traffic. The one exception is the British possession of Hong Kong, the center of illegal operations in the area, where the smugglers are members of Hong Kong's high society, e.g., Macao gambling overlord Stanley Ho, who made his career smuggling strategic materials from Hong Kong to China via Macao during the Korean War.

A 'Bank of Europe' for 1979?

Britain's defeat is the way out for the U.S. economy

A European fund pooling the entirety of its members' reserves is now at the center of ongoing discussions shaping the European Monetary System (EMS). The prospect, which confirms in spades the *Journal of Commerce* prognostication in mid-October that the EMS's emergence as a new central banking institution stacks the odds against the British-run IMF, has driven Britain into what the London *Guardian* called "a consensus of despair."

Meanwhile, however, Europe and Japan have been forced to hang fire on their dollar-support market interventions because of the overwhelming counterweight of U.S. policy failure. But while Americans continue to think of monetary affairs in geological—or, currently, barometric—terms, the EMS is emerging as the most powerful effort since Napoleon's international reorganizations to actively shape history.

West German central bank spokesmen and British press outlets have publicly revealed that a European central fund presiding over the total gold and currency reserves of its members is the near-term goal of the EMS's governmental creators in West Germany and France. Coupled with the EMS's standing offer of associate membership to any nation in the world, the funding goals position the EMS as the new world central bank set to replace the IMF.

Bundesbank president Otmar Emminger, in a Baden-Baden speech Oct. 24, cited the immense weight of the fund being discussed. The West German business daily *Handelsblatt* quoted him: "If every European Community member, including those not now pledged to the EMS, were to join, under present conditions they—not counting the Federal Republic—would have available internal monetary reserves totaling more than \$100 billion, assuming the gold reserves were activated at a \$180-per-ounce price basis." A second top Bundesbank official confirmed privately Oct. 25 that the West German government intends to bypass the domestic law forbidding such a revaluation and "do it through the EMS."

Another way to put Emminger's estimate: minus the UK and Ireland, but including Germany, if gold were pegged at \$180 an ounce, the seven EC members in question would have some \$98 billion in gold

reserves—and \$200 billion in combined gold and currency reserves. \$180 is a conservative peg, since no one expects the market price of gold to drop below its current \$230-plus level.

The implications of such a fund are staggering even to Emminger, who has grudgingly gotten used to the idea that the full \$50-billion EMS pool—a fund of European currencies and an equal \$25 billion gold-dollar fund—is being put on track for January and not, as many had predicted, for early 1981 at best. The fundamental principle of the EMS—centralized, gold-backed, long-term credit for global industrialization—is guiding all the "technical" implementation moves. These include the recent Bundesbank measures to draw down the excess liquidity created by dollar-support interventions, and not "dry it up" but reallocate it to refinance trade credits in the form of longer term, open market, fixed interest-rate bonds.

Another move was the dramatic announcement by the senior officers of the Swiss central banks, Messrs. Leutwiler, Languetin and Schulman, that the bank is considering revaluation of its gold reserves. Switzerland, a non-EC member and one of the few nations not belonging to the IMF, has for weeks expressed its resolve to join the EMS. This would add another \$15.7 billion to the fund in gold reserves at the \$180 price level, and another \$25 billion in total reserves!

The probable revaluation was accurately described by a horrified *Neue Zürcher Zeitung*, which carried the announcement in an Oct. 21 interview with the three, as part of a total change in Swiss financial policy. Fritz Leutwiler, the central bank director, had just declared Oct. 19 that Switzerland will stop at nothing to bring the overvalued Swiss franc into line with the deutschemark. This in turn is part of the Schmidt-Giscard commitment to move toward a fixed-rate monetary system by establishing sound, stable parities among the mark, Swiss and French francs—and gold.

Sources at the Bundesbank itself are extraordinarily confident that the EMS will achieve a "gold exchange standard"—whereby gold serves as collateral for a multiple of credits. On both sides of the

Atlantic insiders have said all along that a key question for the EMS would be a joint revaluation of gold; now Emminger and Leutwiler have brought the discussion into the open, with less regard than usual for the U.S. Treasury and its demented efforts to demote gold forever.

Since Japan is now being matter-of-factly referred to, even in Washington, as an "associate member of the EMS on all levels," it is appropriate to recall the past several months' Japanese moves to build up Bank of Japan gold holdings and create a Tokyo gold market, in tandem with Premier Takeo Fukuda's repeated public cosponsorship of a return to fixed currency rates.

The *Daily Telegraph* of London confirmed the "European central bank" initiatives Oct. 23 by laying out two roads to European economic unification. One would be, in plainer words than used by columnist Brian Griffiths, West German reflation as the key to "coordinating economic policies." The other would be a single unified Eurocurrency of the sort EC Commission President Roy Jenkins has been pumping for years to help replace the U.S. dollar as a reserve asset. Griffiths complains that the EMS is neither—it allows nations to keep their own currencies and national sovereignties, but instead of creating "a European Monetary Fund which would be a sort of European IMF," it moves toward the European central bank principle under West German leadership and should be shunned by Britain.

The same day, the London *Guardian* also came out

on the "no" side of what has become a bitter, woeful fight within the UK government and policymaking circles. Again, the grounds for *Guardian* columnist Peter Jenkins's insistence that Britain can't and won't join the EMS is the Franco-German alliance for immediate implementation of the funding powers of the system.

The dashing of the hopes Jenkins expresses that France could be drawn to Britain's side is all the more painful to the UK because of the absurdity of the effort. The concrete crash-program perspective on scientific education and nuclear energy development set forth at the September Aachen meeting as the spirit of the EMS was in a sense, as Jenkins says, the clincher. When Prime Minister Callaghan and Chancellor of the Exchequer Denis Healey sidled into Bonn this month trying to act like negotiators, with demands and conditions on Britain's possible partnership in the EMS, they came home empty-handed....

...Except for their patrons' triumph in coordinating the internal collapse of the dollar (see U.S. REPORT). Europe and Japan now say they have decided that it is impossible to continue their huge market interventions on the dollar's behalf, and also said why: "There is no way the dollar can be corrected from outside...if something doesn't develop from inside, Europe and Japan can't help," concluded a senior Japanese official in Bonn recently. Leutwiler made a public statement to the same effect Oct. 19, while repeating that the dollar is drastically undervalued. A West

'Consensus of despair' in Britain

This week's British press accurately reflected British policymakers' floundering as they attempt to define the UK's posture towards the European Monetary System. What emerged was what one commentator called a "consensus of despair."

DAILY TELEGRAPH, Oct. 21, 1978, editorial

... the outcome of the Bonn meeting between Mr Callaghan and Chancellor Schmidt earlier in the week suggests that the likelihood of British participation in the new currency club has once more receded. British Ministers seem to have gone to Bonn clinging to the illusion that the Germans would pay a handsome price for

our involvement. They came home sadder and wiser.

THE OBSERVER, Oct. 22, 1978, by William Keegan

The real significance of Giscard's support (for the EMS) is that he shares Schmidt's historic and romantic vision of closer links in Europe. Giscard does not necessarily include Britain in the first rank. For the British, the invitation to join the EMS revives all the post-war and post-Empire problems raised by the agonising decision over whether or not to enter the EEC in the first place.

The domestic political difficulties dominated the Prime Minister's visit to Bonn last week. At one time this was intended to be the great occasion on which Jim Callaghan and Denis Healey paved the way for British entry into the EMS. In the event, the visit was a

diplomatic disaster which the leaders did not conceal by devoting the first three-quarters of an hour of their press conference to details of the situation in Namibia. . . .

THE SUNDAY TIMES, Oct. 22, 1978

... Britain's Prime Minister made it painfully clear to his German friends at Thursday's summit meeting in Bonn that he no longer expects to join the European monetary system on Jan. 1. The meeting dripped with goodwill and unctuous expressions of mutual sympathy and understanding. In hard facts, the cleavage was plain, so much so that Germany had already reacted to the new situation. . . .

THE GUARDIAN, Oct. 23, 1978, by Peter Jenkins

The Cabinet is yet to make a formal decision but Ministers have

German official confirmed to *EIR*'s Wiesbaden bureau: "There was no way—in the short term—that Europe could stem the (antidollar) tide. Yes, the Buba (Bundesbank) and the Swiss National Bank have pulled away the props from dollar support. We can't do more about it now," he added, referring to the EMS fund's potential to generate a scale of dollar export

orders that will turn the situation around. What he did not say is that if the U.S. administration's current determination to force a recessionary collapse to "combat inflation" is allowed to take effect, there will be little American industry left in sufficient shape to enter these new markets.

—Susan Johnson

British 'sick man' ready for the undertaker?

British Prime Minister James Callaghan has kept European Community documents relating to the European Monetary System under lock and key, with access granted only to the Exchequer, not to the rest of the Cabinet, including the Trade Ministry. The Oct. 26 cabinet session, *Executive Intelligence Review* has learned, will be the cabinet's first formal discussion of the EMS, following near-fisticuffs between Callaghan and Energy Secretary Anthony Wedgwood-Benn at a joint Oct. 23 session of the Labour Party leadership and the Cabinet over the EMS, which Benn demanded the government repudiate. Peter Jenkins, a London *Guardian* writer with an inside track to Downing Street, has mooted "associate" status for Britain vis a vis the EMS, a proposal to save face without undergoing the rigors of membership. The Labour Party majority is determined to block any EMS link;

Callaghan is trying to keep open all such options as he possesses.

Why such discord at this and other levels of the notoriously like-minded British Establishment? Because the price of British entry into the EMS has been established at an appropriate downward adjustment of City of London financial-political hegemony, and the pound sterling with it. Yet, the "sick man of Europe" will fare no better for staying out. A quick review of the particulars shows the monarchy's political and economic future to be perched precariously on the knife's edge.

Britain's looming crisis was temporarily postponed in June, when Chancellor of the Exchequer Denis Healey took drastic measures to impose strict controls on UK banking — the so-called "corset" — and jacked up the minimum lending rate (MLR) by a full 1

come to regard the EMS as little more than a thinly disguised version of the old German dominated currency snake.

To this end the Government will be trying to preserve the ability to influence—from the outside—any developments by the snake in the direction of a genuine "European" currency system. . . .

This line of argument from London—although there is some logic to it—will be regarded in most European capitals as the acme of hypocrisy—a case of the British posing as more European than the "Europeans" for the purpose of disguising their government's lack of authority to make a potentially historic decision.

In Britain a consensus of despair seems to have formed around this arcane issue. It is too big a question for lame duck governments. . . .

Callaghan and Healey's original

lack of enthusiasm for the Schmidt-Giscard design was rooted in a certain conviction but now their position seems to be one of canny political calculation. . . .

LONDON TIMES, Oct. 25, 1978

West Germany would not be sorry to see the proposed European Monetary System operating with some EEC members not taking part, according to Dr. Otmar Emminger, president of the West German Federal Bank. . . .

(Emminger's) statements, coming just a few days after the bilateral consultations between the West German and British governments in Bonn suggest that Germany is in no mood to concede points to accommodate the present British ideas on how the EMS should function.

FINANCIAL TIMES, Oct. 25, 1978

The proposed European monetary system is worthless as presently formulated and of no advantage to Britain, according to Lord Armstrong, the chairman of Midland Bank and former head of the Civil Service and of the Treasury.

In what he described as a personal statement, Lord Armstrong said yesterday that he did not think this particular scheme at this particular time was worth a "row of beans."

"I see no advantage in hitching ourselves to a European currency bloc. It does nothing for us against the dollar or yen."

percent — from 9 to 10 percent, putting it back on an “administered” basis at the same time. The occasion for this action was the inflationary expansion of the money supply — running at a 24 percent annual clip at that point in a desperate bid to fuel a “consumer boom” to keep the island’s economy afloat — and a flight out of sterling. The confidence crisis had come to a head in the pivotal government debt market where the City’s institutional investors, smelling inflation and anticipating an “inevitable” interest rate hike to counter the effect of inflation on fixed interest investments, went on strike against purchasing long-term government debt (gilts). Resulting pressure on rates and the Bank of England’s printing presses was sufficient to move Chancellor Healey to action.

The 10 percent MLR reopened the gilt market and the “corset” and related tightening measures acted to brake credit expansion — for the time being. It need hardly be pointed out that the interest rate boost and array of related austerity measures — such as increased corporate taxes — exacerbates the profit squeeze and investment drought suffered generally by British industry, such as it is. Such measures, of course, only postpone the date for a bigger and better financial crisis.

That reality broke through in mid-August when the pound fluctuated violently from \$2 to \$1.90 from one day to the next. UK credit markets, especially the key gilts market, were increasingly paralyzed — fixated on the money supply and on what was rapidly coming to be seen as another “inevitable” interest rate hike.

Ironically, G. William Miller’s British-inspired determination to raise U.S. interest rates “to defend the dollar” has fed the process, putting direct pressure on the Bank of England to maintain sterling’s competitive “earning power” by keeping the price of the currency one step ahead of the dollar. Only the fact that the Miller credit crunch policy is fundamentally a plan to destroy the dollar by collapsing the American economy and has fed the dollar crisis on that account, served to protect the pound.

By September, the monarchy’s rabid *International Currency Review* crowd had admitted that “any renewed collapse of confidence in sterling could trigger off an unprecedented run on the currency” and that quite apart from an otherwise inevitable new burst of inflation, this would occur “once the present U.S. dollar crisis has ceased to shield sterling from speculative attention.”

By October the stage had been set for a rerun of the June crisis in the British financial markets. The consensus among British financial commentators was, as one put it, “There is a jaundiced view abroad of the outlook for British inflation and interest rates.”

More important, the fact that the Bank of England has so far fulfilled its promise to hold the MLR to 10 percent is rapidly becoming a bad joke. Short term

rates are shooting up — Eurosterling rates from 12.25 to 13.5 in just four weeks — and Treasury bill tender rates are pushing 9.85 percent, a rate that would otherwise have pushed an unadministered MLR up a good notch or more. Instead of the widely anticipated financial crisis, on Oct. 19, the Bank of England trotted out an unusual set of money supply statistics and chancellor Healey and Bank of England Governor Gordon Richardson delivered what the West German press described as official pep talks to the (City of London) Lord Mayor’s banquet at the Mansion House.

In what a *Financial Times* columnist referred to as a dose of “port and cigars phraseology,” Richardson intoned that the pound would under no circumstances be devalued. Healey meanwhile asserted that “very large” gilt sales “during the summer” had to everyone’s surprise put the government funding program ahead of schedule — a point the Bank of England went out of its way to make in releasing the monthly money supply figures. For the first time ever, the Bank of England report contained up-to-date details of official sales of government debt, which showed the government to have marketed about one-half of the expected \$6 billion government borrowing requirement for the year. Frayed nerves were soothed. Fear evaporated, chanted the London commentators.

As one columnist noted the morning after, however, “The first point to emphasize is that nothing fundamental has changed.” All signs are go for a run on sterling. The political momentum is overwhelmingly with the British monarchy’s continental adversaries.

— Susan Cohen

Ireland bolts sinking ship

Under the leadership of Premier Jack Lynch, the brutalized country of Ireland is preparing to “break the umbilical cord” with Great Britain and join the European Monetary System, according to both French and U.S. press reports.

Lynch is moving forcefully to take this opportunity to establish Irish sovereignty and shut the door for good on the colonial administrators in London who have turned the tiny nation into a virtual living hell. These moves have forced opposition parties to attack Lynch for, as the October 25 *Journal of Commerce* put it, “rushing headlong into the EMS without fully analyzing its likely effects on an economy that is in poor shape.” It is well known that the British monarchy has used Ireland as a laboratory for testing and refining British intelligence terror, brainwashing, and mass psychological warfare operations and thereby nearly destroying the population, the economy, and the country’s infrastructure.

Columnist promotes 'post-industrial' Britain

"If professors and journalists have misled us about the causes of Britain's illness, is it possible that the whole episode is a case of hypochondria? Is it conceivable that the country has not been declining since the end of the war but in fact, has been enjoying robust health — at least as far as social and economic indicators can measure such things? This, indeed, is so."

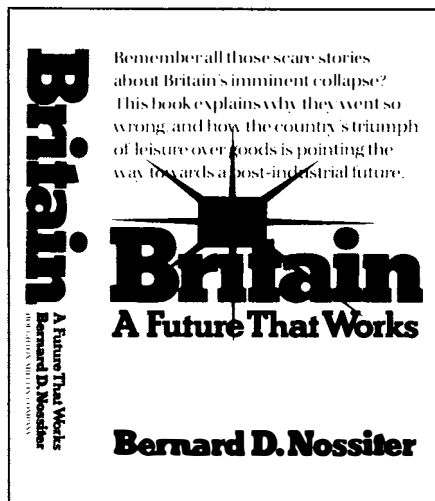
Bernard Nossiter, a prominent columnist for the *Washington Post*, in his soon-to-be-published book, *Britain — A Future That Works* (Houghton Mifflin, Boston), promotes the industrial decay of Great Britain as a model for "post-industrial society." According to Nossiter, it is "the choice of leisure over goods" that is the content of Britain's "robust health."

Among the choices of leisure in Britain are legalized heroin addiction. In fact, Britain remains, through its Hong Kong and Shanghai banking affiliates, the world's leading financier of illegal drug-running. The profit from such operations is then reinvested in financial warfare against the U.S. dollar, to help the U.S. attain Britain's post-industrial stature.

Britain is not the sick man of Europe, insists Nossiter. Britain is

the model for humanity's future. Shedding its industry, Britain will concentrate more and more on producing and exporting "things of the mind and spirit—books, medicine, television, music, drama, education (as well as banking and insurance)"—like the so-called Hospice Movement's heroin cure and the incomparable Sid Vicious, two of the more recent British "postindustrial" exports to the United States.

Nossiter has evidently enjoyed the confidences of a good number of top Britishers. Not surprisingly, he pronounces them all essentially committed to the "post-industrial" plan, which, it turns out, "won't wipe out all handwork or indeed all industry." There is "pleasure, profit and even foreign exchange to be earned," we are informed, "from a broad spectrum of skilled crafts." Presumably Mr. Nossiter and his friends wish to assure the Tibetan poppy grower and Hong Kong chemist that they will not lose a job in this new age. As Nossiter states clearly, he is not referring to manufacturing activity of any kind. "There is little joy," he states touchingly, "working in a coal mine, a steel mill, a car assembly plant."



It was undoubtedly on this account that Nossiter exercised himself on the issue of Prime Minister Callaghan's invitation to Henry Ford to open a huge auto engine plant in Wales some time ago. Callaghan had perhaps failed to "grasp the point" of the post-industrial strategy, Nossiter worried in print.

Callaghan has apparently clarified the matter. In an Oct. 26 dispatch from London, correspondent Nossiter, guardian of the laborer's joys and champion of Britain-as-the-future, celebrates Callaghan's "leadership" in forcing British workers to crawl back into their decrepit factories with wage increases under the 5 percent wage guideline.

The facts on the European Monetary Fund

LaRouche offers an antidote to reports by Triffin, the CFR, and others

The following report on the European Monetary Fund was prepared by U.S. Labor Party chairman Lyndon H. LaRouche, Jr. A contributing editor of Executive Intelligence Review and one of the world's leading experts on international finance and world financial institutions, LaRouche has played a significant role in the process that led to formation of the European Monetary Fund.

Since I am informed that Robert Triffin and others are preparing or already circulating wildly incompetent reports on the European Monetary System, I issue this report. Any political figure, financial official, trade union official, or industrial executive who receives a report contrary to what I outline here should know that all such contrary reports originate with persons who are either simply ignorant or despicable liars.

- 1** The European Monetary System is the keystone of a new world monetary system. The other principal elements of the new monetary system are the Arab Monetary Fund and the Tokyo Capital Market. An additional, implicit constituent, the Comecon, is to be included on the basis of the May 1978 Schmidt-Brezhnev treaties and agreements developed within the context of those treaties.
- 2** The new monetary system will be officially placed in operation on January 1, 1979. Nothing but the prior outbreak of general thermonuclear war could alter that date. Furthermore, the system is already going into provisional forms of operation, provisional institutions and measures which will be consolidated beginning January 1, 1979.
- 3** The long-standing commitment of the system is to maintain the U.S. dollar as principal reserve currency. However, this role of the dollar depends upon bringing the dollar's value to 3.00 deutschmarks. That dollar-recovery depends upon substantial volumes of increased U.S. exports of nuclear-energy and other high-technology capital goods. The current insanity of the Carter Administration, Congress and principal New York financial institutions is viewed as a temporary aberration which must be bypassed by Europeans and others, pending restoration of sanity in leading United States circles.

- 4** Using deutschmarks as the currency of reference for the building phase, all the principal currencies, except the British pound and dollar, will quickly reach a *fixed parity*.
- 5** The new system will be a gold-reserve system, but of an axiomatically different sort from the old London-dominated gold-reserve system. On the basis of the volumes of gold production required for the new monetary system and the costs of production of adequate volumes of such gold with existing mining and refining technologies, the price of gold at monetary-gold open-market prices will converge on 720 deutschmarks an ounce. *Any protraction of the current insanity of the New York banks and Carter Administration will be offset by an acceleration of the role of gold.*
- 6** Excepting, for a moment, consideration of the future role of the United States in the new system, the policy structure of the new monetary system is as follows. It is a Eurasian industrialized nations' alliance of economic cooperation for *directed*, high-technology economic development of the so-called developing sector. In its industrialized component alone, it is a system of economic cooperation of the Eurasian continent's industrialized powers, from the Atlantic to the eastern shores of Japan. It is the greatest concentration of power of economic cooperation the world has ever known, the greatest economic power on earth—which no force, but thermonuclear war, can resist. This power will proceed to go into full-scale operation beginning January 1, 1979. (It is also—if need be—potentially the world's greatest concentration of strategic-military power.)
Do you wish to join it, or fight it?

7 The North-South, high-technology economic development operations of the new monetary system will center around long-term interest rates of between three and four percent. To aid this, existing foreign debts of debtor-nations will be comprehensively reorganized, in a manner consistent with Pope Paul VI's *Populorum Progressio*. New, low-yield, long-term debt will be offered in exchange for existing debt, according to the precedent of U.S. Treasury Secretary Alexander Hamilton's reorganization of the 1789 debt of the United States. (However, IMF, World Bank, and dubious Eurodollar debt may be subject to debt moratoria.)

U.S. bankers: *Do you wish to exchange dubious paper for convertible long-term, high-grade debt, or cling, bankruptly, to non-performing old paper clogging up your portfolios?*

8 The feasibility of low-interest, long-term credit is premised on the peculiarities of the gold-based system. Liquidity exchanged for gold-denominated (inflation-proof) bonds of new central institutions has a higher yield than 10-to-15 percent yield on paper floating in a market dominated by double-digit inflation. On that basis, easily half of a trillion dollars of churning liquidity in international markets will be sucked into the central lending institutions of the new monetary system at prices permitting 3-to-4 percent yields on long-term credit for Third-World high-technology development in industry, agriculture and infrastructure.

9 The success of the new monetary system centers around the fact that it is *dirigist*, and rejects the anti-capitalist "free trade" policies associated with Adam Smith.

Bankers: You have the choice of accepting a dirigist system or joining "free enterprise" in bankruptcy. ("Free enterprise" of the anti-American sort prescribed by the Hapsburg-linked, pro-feudalist Mont Pelerin Society, will vanish from the markets through the free-competitive processes putting the advocates of such "free enterprise" into the bankruptcy

they bring upon themselves with their own lack of intellectual fitness to survive.)

So, line up to join the European Monetary System—those among you who have the brains to do so.

10 Although the design of the new monetary system is governed by sound economic principles, the reason forces led by President Giscard d'Estaing and Chancellor Schmidt have followed this course is their determination to avoid what they correctly view as the virtual inevitability of general thermonuclear war flowing from the policies currently adopted by the Carter Administration and the Republican National Committee. Only generalized high-technology progress in agriculture and industry throughout the developing nations can prevent Kissinger's Middle East, African and other policies from leading the world into general thermonuclear war during some point within the span of the medium-term. Hence, one must judge the increasingly resolute temper of continental European leaders and others in ridiculing, denouncing, and opposing the current lunacies, such as the "Camp David" delusions of the Carter Administration, and the insanity prevailing around G. William Miller and most of the New York financial institutions at this moment.

They will not be bullied into accepting the Carter Administration policies—since there is no greater threat than the general thermonuclear war which would result from tolerating current Carter Administration and Mont Pelerin policies.

In light of these facts, Robert Triffin and the New York Council on Foreign Relations should either cease peddling their nonsense on these matters—or should be ignored by all sane policymakers in public and private walks of life. Perhaps if you sensed how proximate to the thermonuclear destruction of the United States the Carter Administration's current policies are bringing us, you would join us in rejecting the sort of insane babbling Kissinger, Schlesinger, Blumenthal, Miller and too many others are currently pouring out.

—Lyndon H. LaRouche, Jr.

Wanniski: EMS an answer to inflation

To our knowledge, apart from coverage by this news service, only one report setting forth the real purpose and potential benefits of the new European Monetary System — and Carter Administration response — has appeared in the U.S. news media. That report was a guest editorial by Jude Wanniski, until recently an editorial page editor of the Wall Street Journal and author of the book The Way the World Works. Excerpts from Mr. Wanniski's article, which appeared in the Oct. 1 Detroit News under the title, "Return to gold: An answer to inflation," follow.

...Inflation will get worse before it gets better, but we are seeing now in Europe and Japan the beginnings of a solution to the worldwide problem of inflation. The solution, which involves the cautious reentry of gold as backing of paper currencies, may soon be forced on the United States to the benefit of the U.S. economy. An opening of the gold window in the 1980s, with a clear understanding of why Mr. Nixon's decision (the demonetization of gold on Aug. 15, 1971 — ed.) was wrong, will bring an end to the inflation and a return to the kind of interest rates the United States experienced during most of its history — 1.5 percent short-term, 3 percent long-term.

For all of U.S. history, until Aug. 15, 1971, the gold window at the U.S. Treasury was open to either individual citizens or foreign governments or both....

The practice worked remarkably well. In 1800 the wholesale price index was 100 and 130 years later, in 1930, it was 100....

The system broke loose completely in 1971 when the Federal Reserve, spurred by the Nixon economic advisers and Chicago monetarists, pumped up the money supply on the theory that loose money would

bring prosperity. Instead, the world was choked with surplus dollars and by early August the foreign central banks were telling Treasury they wanted gold. President Nixon said no and slammed the gold window.... By 1976 the wholesale price index leaped to 410. By the end of this year, the index will be approaching 500.

When the monetarists and Keynesians counseled Richard Nixon into snapping the dollar's last ties to a monetary standard, they posed different theoretical arguments. But at bottom the notion was the same: Given a free hand to create money, the Federal Reserve would be able to bring economic prosperity. The dollar would fall against other currencies. It would become more "competitive" as a cheaper currency. And the U.S. economy would become better off....

In the five years that followed, though, the results were exactly opposite. Countries that the dollar devalued against sharply — Germany, Japan, and Switzerland — enjoyed sharp increases in per capita incomes and rising general prosperity. The United States remained stagnant. And those currencies that fell faster than the dollar belonged to countries — Britain and Italy — that reeled backwards.

Politicians in the United States may be slow to figure out the implications. But in Europe and Japan the message has gotten across that the U.S. economy is hurt worst by a falling dollar and they should not be dragged along with it. In Bremen, West Germany, on July 6, the European Economic Community gave a clear message to the world marketplace that Europe will no longer be wagged by the U.S. dollar.

On Jan. 1, 1979, a European Monetary System will be es-

tablished with membership open to the entire world. This EMS will issue gold-backed bonds, which means that instead of waiting for a return to dollar convertibility in the United States, Europeans will take the lead themselves in developing a world trading currency that holds its value.

The Carter Administration, which has done everything it can to push Europe and Japan in this direction, is nonetheless alarmed at this development. Treasury Secretary Blumenthal a year ago began talking down the dollar. His aides complained to Japan to stop supporting the dollar. And Fed Chairman G. William Miller now tries to drive down interest rates by creating new dollars.

But the threat from Europe is this: If the EEC is determined to create a world trading currency that promises to maintain its value over time by hewing to a gold standard, world traders will flock to it, and in the process abandon the dollar — which means it falls even faster with greater inflationary consequences. This is what is now happening on the financial markets, which do not have to wait until January 1 to make adjustments in the holding of currencies.

The unfolding events may be "bad" for the Carter inflationists, who have lost leadership on monetary policy to the Europeans in the same way they have lost leadership on fiscal/tax policy to the U.S. Congress. But all this bodes well for the U.S. economy, if we can assume the end result will be a return to dollar convertibility, a reopening of the gold window....

... Interest rates would drop like a stone, to 1.5 percent short-term and 3 percent or so long-term.

Can a probability be put on this? The question is not really if, but when?

Carter's economic war against the U.S.

How Kissinger took control of the President

With last night's televised address, President Jimmy Carter has put himself into the role of the amateur surgeon who proposes to remove most of a patient's innards on the presumption that he doesn't know which organ is causing the patient's complaint. Such luridly psychedelic policy-making from a President prompts the query: why doesn't someone in a position of power act to stop Carter before the value of the dollar is totally wrecked and the economy plunged into a depression worse than that of the 1930s?

The answer is that most of the nation's behind-the-scenes policy makers wish to wreck the dollar and plunge the nation into a depression. The answer to the question posed by Carter's address is: *If one wishes to kill the patient in surgery, it is quite sufficient to give a reckless, untrained amateur the scalpel.*

This state of affairs in the nation represents a qualitative change in policy outlook since mid-July. During July, there remained a significant plurality among policy makers and leading policy-influencers, in both governmental and private circles, which was considering the adoption of the European Monetary System (EMS) perspective. *On the surface*, today there are virtually none supporting the EMS. Those who entertain pro-EMS outlooks are, for the moment, maintaining a very low profile. Kissinger's policies are rampant.

At this moment, Henry A. Kissinger is determining Carter Administration policies for:

- (1) Monetary and economic policy;
 - (2) Middle East and Islamic policy;
 - (3) Africa policy;
 - (4) Latin American policy;
 - (5) Far East policy;
 - (6) Policy vis à vis NATO and the Soviet Union.
- In the Washington pecking order, Zbigniew Brzezinski is essentially a mere errand-boy for Kissinger.

The policies for these areas are summarily as follows:

(1) Monetary and economic policy

The end of the U.S. dollar's role as a principal

international reserve currency, thus aiding the attempted deviation of the world into "regional currency blocs." This British policy of Kissinger's (and Carter's) is directly counterposed to the European Monetary System, and is shaped by an intent to wreck the new monetary system at birth. Wrecking of the U.S. dollar and U.S. economy are viewed by British circles as a key, integral feature of the effort to wreck the EMS, Arab Monetary Fund, and Tokyo capital market.

The current Carter Administration policy is to drive the value of the dollar down to the vicinity of 1.60 deutschemarks, and to bring the U.S. economy into a

In this section

On the evening of Oct. 24, President Carter went on national television to present his Administration's new anti-inflation program. The response the next day from the public, the press, and the international currency markets was unanimously negative. Yet both the explanations offered for Carter's behavior and the alternative proposals presented in most public forums have been in general no improvement over the President's call to virtual national suicide.

In contrast, we are pleased to reprint here an analysis of Carter's speech and the U.S. policy debacle by U.S. Labor Party chairman Lyndon H. LaRouche, Jr., that was written the day after Carter's address and appeared in the Oct. 27 issue of his party's newspaper, *New Solidarity*. LaRouche's survey of America's political choices and policy options is must reading particularly now, as U.S. citizens prepare to go to the polls on Nov. 7, to cut through the psychosis being passed off as political debate.

depression during November and December of this year.

The foreign monetary and economic policies of the Carter Administration center around the IMF "floating rate system" proposal. In addition to the creation of "regional currency blocs," Carter policy is the imposition of *fascist* monetary and economic policies on all developing nations, including a sabotage of high-technology development programs and an insistence on "appropriate" technologies (labor-intensive servitude) in agriculture. These policies for the developing sector are explicitly fascist in the perception of their authors, are modeled wittingly on the economics of the Nazi-occupation policies.

As is shown by examination of Middle East, Africa, Latin America and general-strategic policies, *the current Carter Administration foreign policy under Kissinger's influence is a genocidal policy*: the aim is to launch biological holocaust and war throughout the developing sector, to the purpose of enhancing the relative position of the Anglo-Saxon race, as otherwise proposed by Otto von Hapsburg. The British architects of Kissinger's policies place great emphasis on Hitler's failure to exploit Slavic and other minorities as temporary allies for the destruction of the Soviet Union: British policy is to incite the non-Anglo-Saxons to destroy one another in aid of long-term Anglo-Saxon world rule.

(2) Middle East and Islamic policy

On the surface, Kissinger, the Aspen Institute, and Johns Hopkins CSIS are leading among U.S.-based, British intelligence-controlled agencies proposing a general destabilization of all Islamic nations, with Kissinger's project for an Israel-Egypt (Coptic) military alliance and Kissinger's butchery of Lebanon the launching points for this general project. Kissinger aims (on behalf of his masters) at a disruption of Middle East petroleum supplies, as a way of wrecking the European and Japanese economies.

(3) Africa policy

Carter Administration policy has currently flipped back to the Africa policy which Congress outlawed under the Ford Administration. In place of the Ponto Plan (named after its principal proponent, Baader-Meinhof-murdered Jürgen Ponto of Germany's Dresdner Bank), for economic cooperation agreements among white and black populations of Africa, Carter Administration policy has adopted the wretched British agent Ian Smith, and is now committed to a combination of racial and intraracial bloodbath throughout all of southern Africa. This is a part of London's (and Kissinger's) genocide policy for entire regions of the developing sector.

Discarding the 'China card' for a U.S. war buildup

Kissinger's turn from the "China card" to the "American card" and the subsequent shift in White House policy was first signaled in an article by Kissinger's close associate Edward Luttwak in the October issue of Commentary Magazine, the official publication of the American Jewish Committee. Luttwak, a British subject, discredits the China card option in favor of consolidating conservatives behind a military buildup policy here at home. In his article, titled "Against the China Card," Luttwak, who works at Kissinger's Georgetown Center for Strategic and International Studies, declares:

"It seems that after all the years of our troubles with the Soviet Union a transference of purposes has taken place, from the positive of preserving Western security to the negative of opposing the Soviet Union. It is, of course, true that the Soviet Union remains by far the most powerful of our adversaries, and there is every reason to believe that this will be true in the future also. Nor can one disagree with the contention that it is now a matter of high urgency to muster additional strength to oppose the steady course of power-accumulation which the Soviet Union has followed for fifteen years and more. Finally, one may agree also that the West is in fact losing the military competition and that a strategic remedy is now needed. But the China card is the most unstrategic of remedies, being rather a

tactical quickfix writ large. Only its unpremeditated consequences will be strategic in import — and exceedingly unfavorable.

"There can be no reliable prediction of what the Chinese might do with an enhancement of their military power....As for Peking's willingness to cooperate on a purely diplomatic level, we have now only the promise that after normalization much can be expected.

"The problems then arise from the consequences of the move, not from its feasibility.

"If the Russians were to decide that the threat of a Sino-American alliance was not merely ominous in its long-term consequences but also dangerous in the short-term, they might be driven to use force against China....The Peking

(4) Latin American policy

The Carter Administration policy of this moment is a reversion to the joint policies of Kissinger and Luigi Einaudi (under the Kissinger State Department during the Nixon and Ford administrations). Economically, this is a Chile-model policy for all Latin America, combined with the Einaudi "Second War of the Pacific" policy, for a general bloodbath throughout all of Latin America. This is also part of London's (and Kissinger's) genocide policy for the developing sector.

(5) Far East policy

Just as London has adjusted its own China policy, so London's puppet, Kissinger, has adjusted his own policy. So, Carter Administration policy has followed Kissinger's turn on this matter. The "China Card" is now being deemphasized in preference for the "U.S. Card." Current Kissinger "China policy" as such is an anti-Japan policy, or, to be exact, an anti-Fukuda, anti-Mitsubishi policy. Kissinger (like London) is determined to wreck Japan's industrialization policy, breaking the Japanese leg of the new world monetary system.

The fraudulent "Koreagate" operation in the Congress targeted the rapid-industrialization domestic and foreign policies of the Republic of Korea as a parallel thrust for the anti-Japan policy.

The Kissinger (London) policy for the Asian subcontinent is a by-product of the Islamic and Far East policies. India is scheduled to be destroyed, plunged into massive genocide, through aid of the alliance between Brandt's Socialist International (George Fernandes et al.), the Maoists, and the fascist RSS. Senator Patrick Moynihan has adopted the RSS as his own publicly during recent weeks.

(6) NATO-Soviet policy

London and Kissinger are the visible sources of the current Carter Administration policy of breaking off the SALT II negotiations — at the point "95 percent agreement" is reported by Warnke and other prominent circles associated with those negotiations. This is the "U.S. Card" policy of London.

By linking the U.S. more closely to Israel and to Ian Smith, London has created two deadly triggers for a thermonuclear confrontation between the U.S. and Soviet Union. This general reorientation of the Carter Administration brings the issue of the assassination of President John F. Kennedy to the fore in the most practical and relevant manner. It is also directly related to London's strategic approach to attempting to wreck the EMS.

Kennedy was assassinated on orders from London, with the assassination controlled by networks of drug-linked organized crime and Cuban "right wingers" most intimately linked to the Bronfmans and other

regime would be undermined internally by the exposure of its military inadequacy, and the American alliance would be shown to be hollow.

"...far from being a substitute for American strength, the 'China card' would require a prior augmentation of American military power as the essential precondition of so risky a move. Otherwise a violent Soviet reaction could not be reliably deterred, nor defeated. This of course makes nonsense out of the whole scheme....the relative strength of the United States can scarcely be expected to increase through an alliance with a China that is altogether more vulnerable to Soviet attack than the United States could ever be.

"By all means achieve diplomatic relations with Peking....Even the supply of military-industrial technology

from Europe must be seriously considered. Beyond that, however, the 'China card' should not be played. Instead we should play the American card, mustering more of our own strength for our own purposes.

"In this particular case the attempt to derive a free benefit from Chinese strength in order to spare ourselves efforts which we are very well equipped to make, would fatally compromise not only our strategic position, but also our most fundamental political purposes."

"We should confront the Soviet Union...."

That the "American card" means a military buildup policy was stated bluntly by a source close to Kissinger commenting on Luttwak's views in an interview last week with the

Executive Intelligence Review.

"Brzezinski has been defeated at the National Security Council. He no longer runs policy. The China card is out.

"I too favor not provoking the Soviet Union over China, especially over China. We should confront the Soviet Union, but we can only do that if we are strong militarily. We must build up our military strength in order to do that. Brzezinski has been pursuing the China card as a way of cutting our defense budget, thus having us lean on the Chinese.

"My military buildup policy is exactly consistent with the policy goals stipulated by the NATO summit. If we try to use China against the Soviet Union we lose all possibilities of influencing the Soviet situation the way we want to ... aiding the growth of the wrong factions in the Soviet Union."

elements of control of the so-called Zionist Lobby. Every key fact concerning the conspiracy behind the assassination is now known to a degree adequate to the appropriate political conclusion. The motive for the assassination was Kennedy's turn away from London's confrontationist policies during 1963, a turn symptomized by Kennedy's ordering the firing of "that lunatic" Henry A. Kissinger from McGeorge Bundy's staff. It was the London-controlled Zionist Lobby which effected the "hit." It was the Zionist Lobby's responsibility for the "hit" which motivated the frauds associated with the Warren Commission coverup operation.

What has occurred is largely a return to pre-1963 Kennedy Administration confrontationist policy, the policies with which McGeorge Bundy staffer Henry A. Kissinger was associated during that period.

Interestingly, London is informed that the marginal war-winning advantage the Soviets have consistently worked to develop since 1962 means that the U.S. would be the loser in an actual thermonuclear war. The British are nonetheless prepared to risk that, for sake of their determination to wreck the EMS at birth.

Kissinger's control over the Carter Administration thus presents us with two specific risks of general thermonuclear war. One is short term; the other medium term. There are, at this moment, two short-term triggers for general thermonuclear war. The first, a short fuse, is the Israel-Egypt "separate peace." The second, somewhat slower fuse on the verge of being lit, is Kissinger's Africa policy. If those and similar short-term risks of war are avoided, the arms-race policy of Kissinger's Carter Administration is aimed, in effect, at causing the U.S. to lose a general thermonuclear war during the medium term.

The war-losing perspective must be clearly understood. The Carter Administration's science and economic policies for the U.S. mean that the U.S. must lose any arms race conducted against the USSR *under those policy-conditions*. Expanding U.S. military capabilities in terms of preexisting scientific and technological capabilities places the USA at a growing disadvantage to a Soviet build-up premised on breaking through new frontiers in science and technology. In the realities of thermonuclear war, development of the "neutron bomb," B-1, MX missile fix the U.S. capabilities into a *decisive margin of strategic disadvantage*, since the deployment of such weapons rests upon assumptions concerning the order and character of warfare which have no correspondence to the reality of such warfare.

Interpolation: the Nazi precedent

The combined present military and economic policies of the Carter Administration are a direct parody of the policies of Nazi Germany. "Fiscal austerity" constricts the scale of capital formation in industrial production to a narrow, cartelized sector

which constitutes the war-industry sector. The "triaged" other sections of industry, agriculture, and labor force are "absorbed" in labor-intensive programs modeled upon the Humphrey-Hawkins legislation policy.

As in Nazi Germany, the social composition of the Carter Administration policy is a perverted Republican National Committee (analogous at the moment to the German conservatives aligned around Schroeder's bank), and a broader, "environmentalist" base. One need only know how the *Wandervogel* ferment in Germany produced the Nazi movement's rank-and-file to see the connection to the present-day Kennedy machine base, the rock-and-roll drug "counterculture."

The only, ironic difference of note is that Nazism was anti-Semitic, whereas Carter's Nazi-like policies are associated principally with the Zionist Lobby. Otherwise, the same Jewish-name banking families behind the Zionist Lobby were principals in the creation of the Hitler regime.

Under conditions of Nazi economy, Nazi military policy was necessarily a *Blitzkrieg* policy. *Blitzkrieg* is not a 1930s-1940s innovation in warfare policies, but rather a special expression of an ancient, oligarchical military policy which was also the "cabinet warfare" doctrine of the eighteenth century British and Russian commands. Hence, *Blitzkrieg* policy is a doctrine which was discredited in battle by Napoleon's forces by 1807. This French force was defeated only by those Russians who directly applied the historical studies of Friedrich Schiller, to lure Napoleon into a position at which Russian in-depth capabilities would defeat him.

If a military force faces a prospective adversary whose in-depth forces could defeat him, the problem admits of an hypothetical solution if some means can be devised such that the first-line adversary forces are crushed before in-depth capabilities can be brought effectively into play. To accomplish this, a *Blitzkrieg* policy dictates the concentration of the bulk of one's own forces into a highly mobile first-line assault force of the greatest relative concentration of firepower and closest coordination of both arms and logistical capabilities. The 1940 Nazi assault against France is exemplary of this point. The principles of Scharnhorst and Schlieffen were perverted into a concentrated, *Blitzkrieg* expression. Thus, although first-line French forces outgunned the Nazis in tank quality and so forth, the coordinated deployment of aggregately inferior Nazi potentialities shattered the more thinly deployed, more poorly coordinated, less mobile French forces, such that France was defeated before in-depth war fighting — a new Battle of the Marne — could begin.

Blitzkrieg, like all other forms of "cabinet warfare," depends upon winning a set of decisive battles before the adversary's advantage of in-depth capabilities can be mobilized. If that initial shock-assault objective fails, the *Blitzkrieg* force is defeated.

The Soviet defeat of the Nazis is the exemplar of this, and Zhukov's counteroffensive at Stalingrad the epitome of Soviet policy to this date.

Thermonuclear war has added one feature to Soviet strategic policy: the use of intercontinental and related ABC weapons to obliterate the in-depth war-making capability of a principal adversary as the first act of war.

Soviet capabilities are otherwise centered around two interconnected points of policy: civil defense and the dirigist promotion of the highest rate of general scientific advancement. Only high rates of capital formation permit deployment of industrial and population capabilities to take advantage of geographic and other potentialities of civil defense.

Under the Nazi-modeled combined economic and arms-building policies of the Carter Administration, U.S. development is channeled into a *Blitzkrieg* profile, such that the antiscientific bias of the Carter Administration increases the war-winning margin of Soviet forces faster than U.S. arms build-ups occur.

If leading military professional ranks in the U.S. were thinking competently, they would demand that U.S. monetary and economic policies be subordinated to the requirements of in-depth war-fighting capabilities. They would demand, as the first line of U.S. defense capabilities, (1) Dirigist policies of broadly based scientific and technological advancement, through high rates of capital-intensive capital formation in industry, agriculture and infrastructure, (2) The most intensive and broadest-based scientific research and education, (3) The elimination of the "all-volunteer Army" policy, in favor of a universal-militia reserves policy, and (4) The promotion of scientific and technological development of an *active* (antimissile) civil defense capability for neutralizing ABC missiles in flight. The proposal of an arms buildup policy under Carter monetary and economic policies — under Kissinger and Schlesinger antisience policies — is sheer strategic lunacy.

It happens to be the historic, strategic irony of the situation, that if the USA had such a competent military policy, the danger of thermonuclear confrontation would evaporate. The correct military policy presupposes a correct monetary and economic policy. Under a correct monetary and economic policy, durable economic cooperation and subsumed political cooperation agreements with the Soviet leadership are readily available at this moment.

Carter's paranoia

The current, Kissinger takeover of the Carter Administration's policies centers around that grave personality defect in President Jimmy Carter against which this writer warned during the 1976 presidential campaign. This personality flaw — *paranoia* — was heavily underlined in last night's TV address: "Don't

listen to anyone who says the Carter program won't work."

This is a further plunge into paranoia along the lines first underscored in the "Shaba II" affair and in the aftermath of the recent Camp David fiasco. In the "Shaba II" affair, Carter regurgitated the lies put forward by Brzezinski, Kissinger, and CIA Director Turner. Carter insisted that he had made up his mind and was impervious to any contradictory facts. In the Camp David case, the same lunacy was paramount: "It is a success," the Administration insisted, "and we will refuse to listen to any evidence which might suggest the contrary." Last night, Carter insisted that his Administration pay no attention to anyone who indicated that Carter's policy was the lunacy it is in fact.

Carter's paranoia is key to the process by which the Administration's policy has been taken over (nominally at least) by Kissinger. Without that grave flaw in President Carter's mental processes, the recent operation could not have been pulled off.

The reader must demystify paranoia. All adult psychosis, like neurosis, is summarily, inclusively accounted for as a kind of "reaction formation" in which the victim regresses toward the world outlook of a superstitious condition like that of a child between one and two years of age.

The world outlook of the child obsessed with Warner Communications' "super hero" comics is exemplary of the point, especially in respect to President Carter's current deepened strategic disorientation.

The mature adult sees the world as a whole in, at worst, logical terms of lawful cause-and-effect connections. Such an adult proceeds, in each given instant of policy-making, on informed logical judgments, but is constantly open to new information and more sophisticated evaluations, to alter and improve a decision, or to drastically correct a faulty initial decision. An informed electorate selects officials not merely for their present qualifications for making mature, logical judgments, but more for the manifest capacity for intellectual growth, to correct faulty decisions quickly and openly, and to constantly increase the depth and breadth of judgment.

The infantile mind, like President Carter's, does not see the world in such mature-adult, logical terms. The infantile mind clings, oedipally, to its mother's skirts, and has no logical comprehension of the world beyond a narrow range of immediate personal associations. The infantile mind views the larger world with superstition, myths.

Carter makes policy, in effect, by posing before a mirror. The mirror is a close set of cronies, including Brzezinski and Schlesinger, who have been appointed to their present positions, chiefly by the New York Council on Foreign Relations, because those appointees have demonstrated their special influence over Carter, their ability to act as his "mirror." Hence, Carter's policy-making is that of an empty-

headed method actor, who has not the slightest conception of world reality, but only a concern for the pose he strikes on stage. As to what his pose should be, he depends upon his "close advisors" to assure him that this or that posture will best serve to make him "look like a real President."

Carter does not see world reality. He is merely an infantile actor upon a stage. It is the script writers, the directors, the producers, the prompters, who determine the content and enunciation of his assigned lines, and the watching world is not a world of reality, but merely a theater audience. The "outside" critics are viewed merely as theater critics, to be variously denounced or appreciated as they are "nice to" or "ungrateful to" their President.

The manipulation of the increasingly paranoid Carter is accomplished by manipulating those elements of Carter's rigged psycho-political environment to the common ends of inflating his general manic-paranoid delusions of grandeur, and the suggestive conditioning of Carter toward the kinds of policy postures his controllers impose upon him.

Reality makes little impression upon him. The collapse of the dollar makes little impression on him; he simply refuses to see a connection between his August 1978 policies and that collapse. The collapse of the U.S. economy makes no impression upon him. The fact that his policies are crushing the labor and minorities on which he presumed to base his popular constituency makes no impression upon him. The fact that France, West Germany, Japan and other nations warn that his policies are unworkable, that he is wrecking the NATO alliance, and so forth, makes no impression on him. "I am President of the USA, and the world must obey me — or else" is his world outlook of the moment.

Whatever is planted into his head by manipulative suggestion becomes for Carter *his own judgment*, his own "difficult decision." "But, Mr. President, these people have forgotten that you said clearly that..." is sufficient to drive him into a rage against those who have ignored a "clear presidential decision." The poor man has no sense of the fact that he is almost entirely manipulated.

That susceptibility of the paranoid President Jimmy Carter to manipulation is key to the way in which U.S. policy has been driven insane.

RNC: Key to the recent turn

The key to the most recent, post-July turn in the Carter Administration's policy profile is the Republican National Committee. In effect, Kissinger took over the White House by delivering the RNC to Carter.

That has been the trend of the pattern around the White House and Congress since Kissinger emerged

from semi-retirement in 1977. We ourselves can date this efficiently in effect from June-July 1977, centering around the Kissinger-Schlesinger-Zionist Lobby disruption of a Fusion Energy Foundation conference in Pittsburgh, Pennsylvania. The role of Nazi-industrialist self-modeled Speer of U.S. Steel surfaced in those circumstances, together with an exacerbated first assault against the Labor Party by Senator Jacob Javits's Anti-Defamation League — the Javits political link to organized crime is relevant in understanding that.

Since approximately that point in time, there has been a trend of moral degeneration within U.S. conservative and Republican leading circles, as first the Republican National Committee's newsletter, and then the Birchers's publications became shamelessly tools of the Zionist Lobby. It was at about the indicated point in time that Kissinger first delivered the RNC conditionally to the Carter White House, the point at which Kissinger's regular collaboration with the Carter White House began.

Nonetheless, there was only so much Kissinger-bending which the social base of the RNC would tolerate. Until May-July 1978, there were precise limits beyond which Kissinger could not manipulate the Republican Party leadership in Congress.

What has happened was most plainly reflected in the last weeks' sessions of the Congress, with the RNC support of the Carter veto of the Public Works bill the tip-off as to how far the degeneration of the RNC has gone since the May-July period. The absolute lunacy of the closing 30 hours of the congressional session, the logical aftermath of the successful Carter veto of the Public Works bill, attests to the basis for the manic-paranoid delusions of grandeur put before the television screens last night.

It was Kissinger's delivery of the RNC to Carter for the present set of Carter Administration policies which represents the decisive factor, the decisive marginal element in transforming Carter from a Democrat into a Zionist Lobby version of a Republican conservative. If this facet of the process is more closely examined, the manner in which the policy turn was effected becomes clear, and the implications of the turn also become clear.

What happened, beginning May 1978, was a large-scale, multibillion dollar British intelligence campaign in behalf of "free enterprise." This campaign was coordinated by a British intelligence black-propaganda conduit, the Heritage Foundation, with an intensive direct deployment by Henry A. Kissinger in support of this. This British covert operation against financial, industrialist and other conservative circles, beginning May 1978, was directed by British intelligence against the European Monetary System proposals of France's Giscard d'Estaing and Germany's Chancellor Helmut Schmidt.

This resurrection of the United States' ancient enemy, British intelligence hoaxster Adam Smith, as

the apostle of "free enterprise" and "antidirigism," was dovetailed with a cooption of anti-SALT postures among military-professional and conservative ranks, and nested within conservative support of Israel and Ian Smith as leading "anti-Soviet" heroes who must therefore be fully backed by the USA.

It was this operation which enabled Kissinger to turn the RNC into a collection of babbling fools, and Kissinger's delivery of such a lunatic RNC to Carter which enabled Kissinger's masters to turn Carter into his present policy profile beginning in approximately mid-August of this year.

The May 1978 caper

To this date, outside the publications associated with the U.S. Labor Party, no national news media have yet informed business leaders, let alone the general public, of the contents of the agreements reached either at the Bremen EEC summit of July, the Aachen Schmidt-Giscard summit, the October meeting of Schmidt and Fukuda, or the May 1978 summit of Schmidt and Brezhnev in Bonn and Hamburg. Except for a handful of leading figures in the U.S. who have been directly in contact with appropriate leading continental European circles, only readers of media associated with the U.S. Labor Party have even a semblance of competent knowledge respecting the new world monetary system to go into operation on a \$100 billion base of reserves on Jan. 1, 1979.

To put the matter bluntly, and without the slightest exaggeration, all of the national news media in the U.S. have either suppressed all reports of these indicated developments or have simply issued the wildest sorts of lies on those topics.

The reason for this massive lying by the news media is not properly astonishing. Just as President Carter invoked Winston Churchill to premise his own lunatic policies presented last evening, so the British monarchy and intelligence service are running the U.S. government today. Those same foreign agencies, aided by the so-called Zionist Lobby, control or powerfully influence every national news medium but those of the U.S. Labor Party and a handful of other exceptions in the USA today.

If the U.S. reader were to have been familiar with the London leading press during the past two weeks, he could have absolutely no objection in point of fact to what we have said. The British government and leading press loudly complain that the British government badly miscalculated and bungled in its spring-summer-fall efforts to wreck the European Monetary System proposals of Giscard and Schmidt. What Lords Palmerston, Russell, and Benjamin Disraeli, Lord Milner and Major-General Professor Karl Haushofer and his protégé Rudolf Hess have always feared has now come into reality.

From the eastern shores of Japan to the Atlantic,

across all industrialized Eurasia, a common bloc of economic cooperation will be operational as of Jan. 1, 1979. This is the most powerful bloc of economic cooperation in the world today, the most powerful economic force the world has ever seen. This bloc of industrialized nations is in intimate cooperation with the overwhelming majority of Arab and other Islamic nations, and also with key forces throughout the developing sector. This is what the British fought the Napoleonic wars to prevent, what the British organized two world wars during this century to prevent. It is the reality against which the whole Rothschild-created geopolitical doctrine of the Nazi Haushofer was designed by the British monarchy to prevent. It is now becoming a reality.

It is in the interest of the United States to be a leading part of that new economic reality; it is in the desperate interest of the British monarchy that the United States should be deployed in an effort to wreck that economic reality.

The May 1978 Bonn-Hamburg summit meetings between Germany's Chancellor Schmidt and Leonid Brezhnev are the key to this emerging reality. No one in the United States but the U.S. Labor Party understood this at that time, but leading British circles did. Therefore, the British reacted immediately to the May 1978 events, deploying simultaneously against Schmidt and the U.S. Labor Party beginning May 1978, in the immediate wake of the Schmidt-Brezhnev summit. This deployment had the purpose of wrecking what the British knew to be coming next: the July Bremen EC summit at which Schmidt and Giscard launched the new world monetary system — the system to replace the IMF, the World Bank, and the London-controlled portions of the Eurodollar market.

The point is this, as the U.S. Labor Party has insisted publicly since spring 1974. Economic cooperation between Western continental Europe and the Soviet-led Comecon, based on a new, gold-based monetary system, is the only alternative to a new general depression, and represents the form of economic cooperation indispensable for preventing World War III. The political stability in the world secured by such continental European East-West economic cooperation provides the indispensable basis for a high-technology development of the developing sector as a self-expanding new market for industrial, high-technology exports. So, economic agreements between East and West are the linchpin of the creation of a new monetary order within the capitalist sector of the world.

Chancellor Schmidt was brought to play a leading position in launching such a new global monetary system in consequence of his study of NATO strategic outlines for the order of warfare between the NATO and Warsaw Pact forces. Although he is determined to make the new monetary system effective, this determination among himself and his collaborators would not be possible but for their shared concern to prevent

general thermonuclear war. They would not, in short, have the guts to buck both London and Washington on this issue if any less power motive than preserving the existence of their nations were clearly at stake.

The same perception operates significantly on the side of the Soviet leadership.

The British, whose leading circles understand this sort of connection, understood immediately that the May 1978 Schmidt-Brezhnev agreements meant imminent creation of a new monetary system, a new system which would end the approximate two centuries of City of London rule over the world's debt-financing. The British also knew, as their leading spokesmen have stated, that the U.S. Labor Party and its chairman had been the best-known source for the policy-conceptions the new world monetary system will embody in practice. Hence, they reacted immediately, in May 1978, launching simultaneous operations against Schmidt in Germany and the U.S. Labor Party in the USA.

The British view of the U.S. Labor Party is that it is an exceptional sort of *potential* danger to the British interest. The wide, cumulative contact of the U.S. Labor Party with various leading industrial, financial, political, trade-union, minority, farmer circles in the USA has produced an awareness of Labor Party International Development Bank policies. Thus, the instant a broad section of leading U.S. circles knew the facts concerning the new monetary system, the Labor Party must automatically emerge as a leading intellectual force in policy-shaping within the USA.

Notable in this is that exactly the same forces deployed against Schmidt in Germany were deployed against the U.S. Labor Party in the USA.

Germany: Otto von Hapsburg

The immediate reaction to the Schmidt-Brezhnev summit was a massive British deployment around Queen Elizabeth II's extended visit to Germany. The Springer press, juridically and otherwise closely allied to the British intelligence service, groveled in headlines of obscene adulation before the visiting Guelph monarch. This obscenity was capped with disgusting headlines, asserting such things as "Germany, too, needs a Queen," and "Ten Million Germans Prefer a Queen."

The centerpiece of this operation was Otto von Hapsburg, who had just recently added Bavarian citizenship to his preexisting (and continuing) citizenships in Austria and in the Sovereign Order of Malta. The Hapsburg family is closely linked to the British monarchy and to the City of London, and Otto von Hapsburg himself is a central figure behind the German substitute for the USA's movie-star-fan

magazines, what is termed the "Rainbow press," which features the social life of Grace Kelly Grimaldi and other elements of the European "black nobility." These magazines are more widely circulated among the most ignorant and backward sectors of the population in Germany, and in some Bavarian rural communities are avidly read and discussed in place of ordinary newspapers. It is the addicts of such profederal fare who represent the hard-core supporters of Hapsburg crony Franz-Josef Strauss.

The significance of the Queen Elizabeth II caper was an attempted rallying of the backward and ignorant admirers of the "Rainbow press" in support of Strauss's, Dregger's and Kohl's efforts to topple the Schmidt government with aid of the lunatic "greenies" (German "environmentalists"). This destabilization has been administered heavy defeats in the successive Hamburg, Hessen, and Bavarian state elections, but the effort was nonetheless made, and most vigorously.

The profederalist faction in Germany is tied together by the German, Bavarian, and Austrian divisions of the Order of Malta. Excepting some anti-British forces in the French priory and the Rome-based division of the Order of Malta, the Order of St. John of Jerusalem is a profederalist organization of the "black nobility" factions of the European and Mediterranean royalty and aristocracy, with Queen Elizabeth II and the Dutch monarchy serving as the dominant titular leaders and centers of political power for Maltese Order forces generally.

The semi-secret international intelligence organizations of the Maltese Order include the Swiss-based Mont Pelerin Society, which is most closely attached to the Hapsburg family.

It is the British factions of the Maltese Order, together with their Zionist associates, who have controlled the international illegal-drug traffic for two centuries to date, and who control organized crime in the U.S., the Caribbean, Italy, France and most other nations. Not accidentally, the key allies of Queen Elizabeth II in the effort to destabilize the Schmidt government were the Mont Pelerin Society and the Zionist Lobby forces in Germany.

The British press is now howling in agony, arguing that Prime Minister Callaghan, together with Denis Healy and Roy Jenkins, badly bungled in their efforts to wreck the EMS, a bungling based on a sad miscalculation of the determination of Giscard, Schmidt and others to succeed at all costs. Now, the British monarchy's last card is the Carter Administration; only a Carter Administration thermonuclear confrontation with the Soviet Union proffers a credible means for destabilizing the European Monetary System between now and Jan. 1, 1979.

New anti-inflation czar admires the Nazis' economy

Alfred E. Kahn, the man who is taking over the job of Carter's "anti-inflation" czar recently resigned by Ambassador Robert Strauss, is well-prepared to carry out the dismantling of the U.S. economy through the "free enterprise" route of "increased competition." Most recently, Kahn held the post of Chairman of the Civil Aeronautics Board, where he carried out the operational end of Sen. Edward Kennedy's propaganda and legislative blitz to deregulate the airlines as well as the trucking industry. As head of the CAB, the agency created to establish stability in an industry where price-cutting and cheating on capital investment can be lethal, Kahn unilaterally imposed deregulation measures

and began to phase his own regulatory agency out of existence.

Kahn, a close Kennedy family confidant, is living proof of the fact that free enterprise is anti-capitalist. In a recent interview on National Educational Television, Kahn put himself forward as a modern-day Lincoln Steffens, vehemently attacking Big Business "price fixers" and liberally slinging around anticapitalist rhetoric.

To see the sort of economic policies that Kahn and those like him actually endorse, one only has to turn to his 1946 book *Great Britain and the World Economy*, written first as a dissertation for his Ph.D. in economics at Yale University in 1942. The book presents a glowing account of

the German economy *from 1933 on*: "Payment of German reparations was never physically impossible. The abundant energy and capacity for belt-tightening and for vigorous economic reorganization and rehabilitation which Germany has demonstrated since 1933 to make possible an orgy of unproductive investment might easily have made reparations transfer possible if directed to that end instead."

Translated out of academese, this is an open endorsement of the Nazis' economic policies, in the middle of World War II—and an endorsement of the viability of the British-imposed debt reparations, from the Versailles treaty, which opened the path to the war.

In the USA: Heritage Foundation

The campaign against the EMS was launched in the U.S. under the coordination of the Mont Pelerin-controlled Heritage Foundation. The opening action in this campaign was a slander of the U.S. Labor Party written by British intelligence and laundered through the Heritage Foundation as a conduit. This slander was composed in May 1978, and widely issued in June 1978, through such conduits as Congressman Jake Garn's office. At the same time, an escalation of Zionist Lobby-coordinated libels, slanders, physical harassments and assassination projects was launched against the U.S. Labor Party and this writer. The *Business Week* hoax is among the more recent of the Zionist Lobby frauds produced as part of that slander-assassination project.

During May-June-July, a massive deployment by the Heritage Foundation, Henry Kissinger, the Aspen Institute, and the Zionist Lobby occurred. In this the frauds and blackmail against Labor Party contacts and the promotion of the Mont Pelerin Society's "free enterprise" campaign were inseparable.

This slander and harassment operation has two interconnected objectives. More narrowly, it is part of an approximately six-months operation dedicated to the assassination of this writer by the forces coordinated around Senator Jacob Javits, Henry Kissinger, Max Jacobs, Max Fisher, the Bronfmans,

Resorts International, et al. (Ironically, Senator Edward Kennedy's circles are cooperating in this operation, cooperating with the same Bronfman-linked circles which assassinated President John F. Kennedy.) The purpose of the slander and libel operation — including Kissinger's and Sargent Shriver's operations, in cooperation with *Business Week*, against the Islam Foundation — is to discredit and isolate the Labor Party and its chairman to the point that the assassination can be deployed with a minimal political penalty to the Zionist Lobby, Kissinger, et al. Knowing that the new monetary system will probably go into effect Jan. 1, 1979, the British and their Zionist puppets, such as Senator Jacob Javits, are determined to eliminate *potential danger* LaRouche before leading U.S. circles awaken to the fact that LaRouche's proposals and judgment are being so massively vindicated.

The broader purpose of the attack on the U.S. Labor Party is to prevent the Labor Party from wrecking the Zionist Lobby's "black propaganda" hoax through the principal U.S. news media. It was essential to the British that the leading U.S. industrial, banking, trade-union and other relevant circles be prevented from discovering the facts about the new monetary system. To make the press hoax succeed, it was necessary to take massive measures to the purpose of cutting off those circles from the U.S. Labor Party. Hence, there is no possible separation in operational fact between the libels, slanders and assassination-

projects against the U.S. Labor Party and the Mont Pelerin Society "free enterprise" swindle.

Because most leading U.S. circles are represented variously by cowards and fools, the massive British-Zionist operation has temporarily significantly succeeded. The campaign against *dirigism*, as antagonistic to the Mont Pelerin Society's version of "free enterprise," has intimidated, duped and blackmailed the majority of leading industrialist, banking and political circles into avoiding any open association with support of the European Monetary System.

The Nazi parallel

This is identical with the operation which the Seligmann-connected (and Dulles brothers-connected) Schroeders' Bank and Hjalmar Schacht used to put Hitler into power in Germany.

Up to November 1932, the majority of German industry, together with the Catholic Centre Party and SPD, was anti-Nazi. The only industrialists which had backed Hitler consistently over the preceding period were firms such as I.G. Farben which were controlled largely by Jewish-name financial houses such as Warburg through cartels in New York City and London. Morgan interests were involved, but as traditionally British conduits of influence in the USA. The *New York Times* issues for the period of Hitler's installation accurately reflect the Zionist support for Hitler at that point. (No amount of Zionist screams of denial can eradicate the fact of those *New York Times* leading articles, or the Warburg and related connections to the Hitler project. These are facts. Without the Zionist organization's support, Hitler could not have gained power in Germany.)

The German industrialists were predominantly committed to the candidacy of General von Schleicher, who had neutralized Hitler by coming to an agreement with Gregor Strasser, following Hitler's downslide in preceding elections. Von Schleicher's approach to the German economic crisis was a "Rapallo" approach, full-scale economic-development cooperation with Russia, and to hell with the Versailles agreements.

Unfortunately, not only did German industrialists permit themselves to be blackmailed into abandoning

von Schleicher for Hitler, but, like many military-professionals in the USA today, General von Blomberg and others supported the Hitler project — as U.S. military professions are brought into support of the Carter policy turn around the abandonment of SALT II.

If that had not occurred, if von Schleicher had prevailed, there would have been no Hitler and no World War II, and the changes effected in world monetary arrangements would have led quickly to an end to the general depression.

New York, London and leading Germans acted to support Hitler to save the Versailles monetary system, just as foolish Manhattan bankers today are acting to save the bankrupt "floating rate system" of the IMF and London-centered Eurodollar market. Since Manhattan bankers, U.S. Steel's Speer, Dupont's Shapiro and others are so obviously repeating the follies of Hitler today, these Americans are historically less forgivable than the Germans who went along with Hjalmar Schacht's previous version of the same "free enterprise" project—the Heritage Foundation has launched these recent months.

In those days, it was said of the senile President Hindenburg: "Don't put any piece of paper in front of him; he'll sign it." So, with Carter; by playing upon his paranoia, any sort of lunatic policy can be embedded in his mouth.

Most recently, a leading Paris newspaper, *Le Figaro*, most appropriately summarized current U.S. policy. Commenting upon C. Fred Bergsten's tantrums in Paris, that newspaper wrote: the Carter Administration is threatening Europe — with the suicide of the USA.

This is not a matter for the reader to contemplate. Either the reader supports or cooperates with the U.S. Labor Party, or that reader is inviting his own, his family's, his nation's early radioactive death. There is no one but the U.S. Labor Party holding out publicly a policy of sanity nationwide in the USA today. Either you cooperate with the U.S. Labor Party, or you otherwise profess yourself a person who does not morally deserve to survive. Most of you will probably do nothing, if past performance is a measure of your morality and intelligence; perhaps, our nation no longer deserves to survive, because you, typically, lack the brains and guts to act to save the very lives of your family and their posterity.

Lyndon H. LaRouche, Jr.

PRM-41 and the great Mexican oil grab

Economic and civil war plotted: a secret presidential policy review

A Presidential Review Memorandum, PRM-41, is now being prepared on U.S.-Mexico relations, ostensibly to reverse previous U.S. neglect of policy issues between the two countries and to correct past problems such as Energy Secretary Schlesinger's veto of last year's natural gas deal. Although the content of the document is supposed to remain secret, the "scenarios" being publicly floated by think-tank and other sources close to the policy-making process demonstrate that PRM-41 will head the U.S. straight into a foreign policy disaster.

As is now generally well known, Mexico has enormous quantities of oil — as much as the largest Middle East producers, by even the most conservative estimates, with reserves likely totaling 200 billion-plus barrels. The discussion around PRM-41, as orchestrated by Senator Edward Kennedy, the Rand Corporation, and the Brzezinski-Kissinger wing of the National Security Council, centers more or less bluntly on how the U.S. can make sure its "strategic considerations" prevail over Mexico's in the use of the oil and its revenues.

This oil grab combines a "bust Mexico" angle with the now familiar "bust OPEC" strategy. But that is not the whole point.

National Security Advisor Brzezinski, according to reliable sources, is saying privately that the U.S. "will never permit another Japan south of the border." As he and his cofactioneers are unhappily aware, Mexico is committed to using its oil revenues for a program of mass, high-technology industrialization, to become "another Japan" on the basis of oil-for-technology deals with the European, Japanese, Soviet, and Arab forces behind the European Monetary System, for which Mexico is already acting as a primary bridge to the Third World. The oil grab has this political target.

The fact that a Mexican "Japan" would be one of the best trade partners the export-seeking U.S. could wish, the best guarantee of a secure and open border, and a reliable supplier of needed oil, is of no interest to Brzezinski, Kissinger, and the rest. In fact, they are advertising their willingness to incite civil war in Mexico to stymie that country's development plans, and even to encourage that civil war to spread into portions of the U.S. itself and lead to possible U.S. counterstrikes — their policy can succeed only through that degree of brutal pressure.

Two events last week signaled how advanced this

'undeclared war' is:

•The *Wall Street Journal*, in an Oct. 19 editorial, raised to the level of public national debate what had previously been confined to background briefings and unpublished think-tank papers. "Illegal immigration is an irritant," the *Journal* wrote, "building up a huge Mexican minority in the U.S., much of it in areas where Mexico has irredentist interests. With the wrong change of government, this mixture could evolve into a pressing problem of national security."

•On Oct. 23 U.S. immigration authorities began the construction of 16 miles of concentration-camp-style fencing along the U.S.-Mexico border in El Paso, Texas, and San Isidro, California. Already dubbed "the Tortilla Curtain," the new fencing is being seen in both Mexico and the U.S. correctly, as a further step toward the eventual sealing of the entire 2,000-mile-long border.

'How much oil is each alien worth?'

The oil grabbers correctly recognize that direct U.S. multinational control of the oil is currently close to impossible. Intensely nationalist Mexico, which views its 1938 oil expropriations as a defining act of sovereignty, will simply not permit it. Although this fact is ruefully admitted, it has not dampened repeated "speculations" that "Mexico doesn't have the capability to carry out the oil expansion it wants on its own and will have to call in outside help" sooner or later.

As an interim arrangement, the fall-back notion of a "special oil relationship" is being floated, in which long-term "assured supply" to the U.S. would be traded for "concessions" from the U.S. in terms of other bilateral issues — illegal aliens, trade, financing, and so on.

A Washington journalist close to Kennedy's office stated the terms of the desired negotiations this way: **"The question that will be political dynamite will be how many barrels of oil each 100,000 aliens are worth."**

One of the tasks of PRM-41 is to set up the framework for such negotiations.

The "technical" aspects are subordinate to the larger strategic goals, however. For example, Kennedy-linked think-tanker Richard Fagen suggests that the U.S. will want to encourage Mexico to develop

its oil even faster than Mexico now plans, because, as he says, Mexican oil has a high "political value added" content: "A barrel of Mexican crude is not just 'another barrel on the world market'; it is a barrel that can substitute on the U.S. import bill for...a despised and potentially dangerous (but still desperately needed) barrel of Arab crude."

But should the Zionist lobby in the U.S., together with allied forces internationally, manage to realize the dream of "busting OPEC" and splintering the Arab nations before Mexican oil becomes a key factor, the bulk of the oil grab sponsors would probably wish to see Mexican oil output *cut back*. Although the Kennedy forces now criticize Schlesinger for clumsily mishandling the gas negotiations last year, they remain fully committed to Schlesinger's zero growth energy-supply vision. Almost every pronouncement generated from Kennedy's office over the past three months has included embarrassed disclaimers that the astonishing Mexican oil finds "do not reduce the need for strict conservation policies in the U.S."

"Armed opposition groups crossing the border"

One of the most disturbing indications of the kind of discussions going into the presidential review has been the public airing of "scenarios" of how Mexico, and by extension the Mexican-American community in the U.S., could pose a "security risk" to the U.S., typified by the Oct. 19 *Wall Street Journal* editorial.

The most detailed and sophisticated have been authored by Stanford and Johns Hopkins academic Richard Fagen. In two recent papers (see accompanying selections), one devoted entirely to the question of "Mexican Petroleum and U.S. National Security," Fagen elaborates fully the "inter-connectedness" of Mexican oil, Mexican domestic development policies, and Mexican immigration as matters of "U.S. security concern."

U.S. security will be jeopardized, warns Fagen, if there is "civil and political strife" in Mexico, and the only way to avoid such strife is to "change developmental patterns" toward labor-intensive rural job programs and away from heavy industrialization. The clear inference: Mexico's "oil-for-technology" development focus poses a "security threat" to the United States.

Fagen spins out the further "national security" implication: if there is unrest in Mexico, "the Mexican-resident families and friends of persons living in the U.S. (Chicanos, Mexicans, and Anglos) would be involved — and possibly injured and killed..." He adds a footnote: "As a prod to the imagination, consider a Mexico in which armed opposition groups were being supplied and even occasionally sheltered north of the border."

It must be emphasized that Fagen is at the top of the "left" foreign-policy establishment, with close links to both the Institute for Policy Studies in Washington and to Kennedy circles. He writes frequently on

Mexican oil a 'U.S. security threat'

In two papers circulated to academic and government circles over the past four months, Richard Fagen has gone further than anyone else in detailing how Mexico potentially poses "national security risks" to the United States. Here are some excerpts from his June 1978 paper, "Mexican Petroleum and U.S. National Security," and the September 1978 sequel, "Mexico and the United States in the late 1970s and 1980s: a Framework for Thinking about the Big Stories."

Fagen writes that the policy-trends projected in his papers "do not necessarily reflect the author's preferred values or outcomes." But he has indicated privately that he "would not necessarily dis-

agree" with a large portion of the conclusions of his studies.

Interrelated security concerns

... There is a still diffuse but growing sense (not yet a consensus) that the petroleum boom in Mexico will inevitably be linked to a host of other issues on the U.S.-Mexican agenda. First among these, of course, is the question of Mexican immigration into the United States, but related issues of debt, investment and development are not far behind.... What is becoming clear is that in the public policy dialogue in the U.S., Mexico's people, petroleum, and development are seen as interrelated security concerns in a way not duplicated in U.S. relations with any other nation in the world.

Politics and development in Mexico

Because in the 1980s the United States is likely to care very deeply about the markets for and the supply of Mexican oil, it follows that U.S. policy-makers will care even more deeply than they now do about internal political and economic developments in Mexico. These concerns are manifold: the political cast of the government and its favorable or less favorable disposition to the United States; rates of petroleum development, prices, uses of petroleum revenues (particularly as these relate to questions of employment, out-migration, "social peace," etc.) and relationships with OPEC and other oil producers; relationships with the Mexican-American and Chicano communities in the United States — communities which will

commission for Foreign Affairs magazine. Although he footnotes disclaimers that his papers are merely exercises in "realpolitik," he also notes that they are "an attempt to suggest the 'real world' of trends, interests, and perceptions relating to petroleum and national security in the U.S."

As soon as wind of Fagen's "scenarios" was picked up by the Mexican press early in October, leading Mexican political figures reacted violently. Porfirio Munoz Ledo, formerly Lopez Portillo's education minister and currently an unofficial roving envoy for the President, declared emphatically in a Washington forum, "The sufficiency of the Mexican state to direct its development and preserve national autonomy must not be judged lightly....The problems of Mexico are not a domestic matter of any other nation. Interdependency is not a dilution of sovereignty."

What Mexico is offering the United States

Mexico is determined not to repeat the mistakes of other nations that reaped a bonanza from a raw material export boom but failed to invest in in-depth industrialization. Labor-intensive projects along World Bank lines are being viewed only as an interim back-up to the "front end" of development, industrialization programs. As Mexican planners have stressed, the oil wealth must be *multiplied* through investment in other wealth-producing

activity. "Job creation programs" that channel the oil income into low-productivity rural "development" programs eliminate this multiplier capacity, they note, and would leave Mexico worse off at the end of the oil "boom" than before.

Mexico is offering a "special relationship" with the U.S. based on this development commitment. The way U.S. ambassador Lucey — reflecting strong Mexican government pressure to have its official stand accurately reported — put it to a Cooper Union audience in New York last week was, "Mexico wants to exchange its oil for our high-technology exports."

The amount of oil Mexico is talking about is considerable. Though Petroleos Mexicanos (PEMEX) director Jorge Diaz Serrano has stated that Mexico's goal is to diversify its market in an approximate 20-20-60 percent split between Japan, Europe and Latin America, and the U.S., this still leaves the U.S. with the lion's share of exports, probably 1.5 to 2 million bpd by the mid-1980s.

The Mexican offer comes when the U.S. desperately needs to pick up its exports to help the dollar, and when U.S. capital goods producers are finding Third World orders for their goods falling off as International Monetary Fund austerity dictatorships take hold.

Very little of the Mexican policy thrust is known in the United States. It has been either blacked out in the press or grotesquely distorted. The East Coast "papers of record" devoted all of a 50-word filler on an

assuredly have more weight and presence in U.S. politics in the 1980s than they do now. In short, the national security issues involved in a massive dependence on imported oil will remain, and it would be unrealistic to expect U.S. policy elites intent on "getting out from under Arab oil" to be unconcerned with what "getting under Mexican oil" might mean in terms of new kinds and sources of vulnerability.

Terms of a "deal"

In return for more oil, Mexico may well want a more open border. If so, such an arrangement — taken in historical perspective — will stand up rather well both economically and morally when compared to some of the oil-for-arms deals to which the United States currently subscribes.

Oil not a bridge to development

... With growth almost to a standstill in the mid-1970s, recovery still spotty in 1977-78, and debt and inflation still high, it is abundantly clear that no short-run solution to Mexico's developmental problems is imminent. With the exception of the debt question, potential oil wealth by no means assures any basic amelioration of these and other problems.

Chicanos and civil unrest in Mexico

... A strong case can be made for the long-run centrality of "the Mexican question" in the U.S. political system. The crucial link — suggesting the crucial dynamic — is the presence of millions of Mexicans and persons of Mexican descent in the United States.

The civil rights movement of the

1960s should sensitize us to the future full entry of Hispanics onto the U.S. political scene. (On the other hand, one must be careful of false analogies). Just what forms this "full entry" into U.S. politics will take are unclear, but that a larger role will soon be assumed by millions of Hispanics — and particularly Chicanos and Mexicans — is certain....

Should serious political problems and massive social unrest be added to Mexico's deep-seated developmental difficulties, new issues arise: Under those circumstances not only would the Mexican-resident families and friends of persons living in the U.S. (Chicanos, Mexicans, and Anglos) be involved — and possibly injured and killed — but the border itself would assume a strategic importance that it has not had for more than a century.

inside page to President Lopez Portillo's historic May trip to Moscow to negotiate technology transfer to the Third World. There has not been even that much coverage of Mexico's striking proposal to international lending agencies for a \$15 billion capital goods fund to go to strengthening capital goods industries in both the advanced and developing sectors.

The United States, itself built on the basis of the

aggressive industrialization strategy now being adopted by Mexico, has the opportunity to extend a helping hand to its southern neighbor and benefit from collaboration in the task Mexico has set itself: leaping from the Third to the First World in the course of the next generation. The real threat to U.S. "national security" lies with the Kennedy-Brzezinski policy-making group, and particularly their plans for PRM-41.

— *Tim Rush*

The men who make 'scenarios' come true

While Henry Kissinger and Zbigniew Brzezinski are urging the formation of "mobile U.S. strike forces" that can be shuttled rapidly to any point of "national security danger" around the globe, their aides are coordinating the formulation of PRM-41. This group, part of a high-level government faction of British-colored "geopolitical" orientation, has already demonstrated its "destabilization" capability against recalcitrant Third World countries such as Chile and Angola, and an impressive track record of seeing that "scenarios" come true. Coordinating the review are:

- * **Robert Pastor**, Brzezinski's NSC assistant for Latin American affairs.

- * **Viron Vaky**, the new Undersecretary of State for Latin America who filled Pastor's post at the NSC under Kissinger through 1976.

- * **Luigi Einaudi**, head of Policy Planning at the State Department, known for his sponsorship while with the Rand Corporation of a 1974 "scenario" study of how a new "War of the Pacific" could be cultivated to coincide with the centenary of the Peru-Chile conflict of 1879.

Guide to the studies underway

Meanwhile, who's concocting the scenarios?

Over the past year, Mexican oil discoveries have

created at least one flourishing industry: studies of U.S.-Mexican relations, Mexican development, and the U.S. Hispanic community by platoons of think-tankers and academics. Among the "heavies" of the new projects now getting off the ground:

- * **Edward Kennedy's Blue Ribbon Commission on Immigration policy.** Never heard of it? You're not alone. The legislation establishing this Commission, which will be probably the most important body determining U.S. immigration policy for the duration of the Carter Administration, slipped through Congress and was signed by the President in early October without a ripple of national press coverage. Yet a Kennedy aide says that this Commission "will do for the U.S. immigration Code what Kennedy's S-1 bill did for the U.S. criminal code."

- * **Fagen-Rockefeller Foundation study groups on U.S.-Mexico relations.** Stanford's Richard Fagen is now in the process of selling the Rockefeller Foundation on long-term funding for a series of in-depth study groups on what he terms "neglected aspects" of U.S.-Mexican interaction. Current plans call for three study groups on immigration, finance and trade, and oil. Fagen foresees that particular attention will be focussed on profiling the developing impact of the Chicano and Mexican-American community on U.S. politics over the next decade.

Capriccio Siciliano

Part two of the Soviets' explosive investigation of the JFK assassination

In this section

This week continues *Executive Intelligence Review's* exclusive translation of "Capriccio Siciliano" ("Sicilian Caprice"), a four-part series of articles on the links between political assassinations and the drug trade by Julian Semyonov which appeared recently in the Soviet youth organization's weekly magazine *Ogonyok*. The series is important not only for the new light it sheds on such matters as the Kennedy assassination, the Mafia, and the activities of the Maoist Chinese intelligence apparatus, but also because it sets forth a new sophisticated Soviet perception of the inner workings of British and Knights of Malta linked intelligence networks.

Part one of our serialization last week dealt with the links between Lee Harvey Oswald, the purported assassin of President John F. Kennedy, and Jack Ruby, the man who killed Oswald; the links between Ruby and the Mafia and drug-running; and presented evidence linking Chinese intelligence to both. Semyonov showed that Oswald's brief "asylum" in the Soviet Union was due to no love on Oswald's part for the USSR, but rather conformed to an intelligence "laundering" profile that cohered closely with Maoist foreign policy interests of the early 1960s period. As late as 1969, he revealed, the Chinese had an extensive dossier on Oswald. He noted that President Kennedy's moves to strengthen detente in the period just before his death had drawn fire from the Chinese, and set forth a compelling pattern of circumstantial evidence that Oswald and Ruby were involved in a conspiracy prior to the Kennedy murder and that Ruby was actively deployed from the moment of the assassination in an effort to cover up that conspiracy. Finally, Semyonov showed that Ruby was an important figure in Mafia drug-running in Dallas.

The words of my American acquaintances about "a foreign hand with a well-known signature" are easily deciphered: "the well-known hand" is the Mafia, "the foreign signature" is Peking's foreign services.

In order to understand the Mafia-CIA-Peking triangle, which rests on an invisible base called "narcotics," it was necessary to visit Sicily. (...)

... Syracuse knocked me out with its quiet provinciality, its cart drivers, the African heat, and the prickly sandy dry wind: past greatness is somehow always accompanied by heat and the dry wind from the desert. So it was in Babylon, and in Lebanon, and in Peru there was the same kind of dryness although not the sandy dry wind — the cold mountains loomed on all sides and the sun was dry, blinding, lifeless.

... In the basement car rental office, it was dark and cool. It was 12:00, leaving half an hour or at the most an hour before siesta, the obligatory after-lunch rest.

The dispatcher listened to my request, went into the garage, and brought out a luxurious Jaguar.

"How much is it?"

"Peanuts," answered the dispatcher and showed me a price list. 25,000 lire a day and 200 lire per kilometer. How many kilometers are you going?"

"400."

"90,000. Plus gas. It's full. That's another 50,000. That's," he touched the keys of his calculator, "160,000 or so ..."

"But don't you have a cheap little Fiat?"

"They're broken down. You don't drive a broken-down car, do you?"

"No ... I flew here from a long ways off, and I would like to see your island ..."

"All Americans want to see our island."

"I'm a Russian."

"A Ru... What?! Russian?!" The dispatcher opened his eyes wide and cried, "Paolo, come here, there's a Russian! A real Russian?"

I showed him my passport. Paolo and the dispatcher inspected it like a wild thing, then got me out a little Fiat, figured out the price, and in parting said:

"We'll tell Messina you may be three hours late or so, and they won't charge you. You're pretty hard up

for lire. Buon giorno, camerata, arrividerci!"

I drove through the streets of new Syracuse, faceless, with the architecture of boxes. Then I came into the old city and saw the huge port, the glassy surface of the Mediterranean, and I understood why the Carthaginians tried so hard to take this city.

The Mafia and fascism: Italy

Peking's sidling up to the Mafia, however, did not begin here. To explain how that happened, we have to look into the past ...

"The Mafia and fascism!" asked my companion, letting me into his office. "A highly interesting theme. Let's go out on the balcony, where it's not so stuffy. What will you drink: whisky, wine, gin!"

"I'm behind the wheel."

"Then you can drink anything," he laughed. "Under the new laws a driver can drink one aperitif — a glass of whisky with water, a bottle of wine, and cognac with a cup of coffee."

We sat on the balcony in the shade of a striped umbrella. The large, noisy east coast city of Catania was below us. The similarity with Naples, united with Sicily for many years, was apparent: the many colors of laundry on sticks overhanging the street, the unbelievable noise, and the monotonous color of the houses — gray. People in the sunny countries tend to somber colors, although it would be pretty and cheerful if the walls were white, yellow, green ...

"And where would the money come from," asked my companion when I mentioned this. "The landlord has no wish to spend lire on the outside of the house. It's enough that the apartment brings in the money. The apartment, not its facade. And the city? It's poor."

My companion was a professor of history. He was already old, retired on pension. He had moved back from Rome to his homeland, under the Sicilian sun.

"Fascism and the Mafia," he repeated and reached for a cigarette. "That is highly interesting, you know. Even more interesting than the problem of the real translation of the word 'mafia.' Some say that mafia is 'death to the French,' 'morte ai francesi,' and place its establishment in the 13th century, the time of the Sicilian Vespers, when the people defeated Charles of Anjou's occupiers. Others think that mafia was born in the middle of the last century and applied to the followers of Mazzini who used the slogan: 'Mazzini Authorizza Furto, Incendi, Avelenamenti.' The first letters spell 'MAFIA'. What does it mean? 'Mazzini authorizes kidnappings, arson, and poisoning.' An engaging interpretation of Mazzini, no?"

"Let us put aside the question of where the Mafia came from. It's more convenient for its American sister 'Cosa Nostre' to support the 13th century version. 'Patriotic struggle for the people' and such-like chimerae — the North Americans love historical

associations. What can you do, it's a prestige-minded nation.

"Now, as for fascism and the Mafia ... There exists the opinion that Benito Mussolini acted against the Mafia, because it was a serious — and, more importantly, organized — force, a true state within a state. There exists the opinion that Mussolini did not want to tolerate anyone in Italy who was bound by some unity other than 'the unity of fascism.' In a word, it is asserted that the illegal law of Mussolini acted against 'righteous' illegality (I have in mind thieves' jargon, 'the righteous thief'), against the Mafia. I, however, do not altogether agree with that sort of opinion."

"What is the evidence?"

"I will give you my version. You have the right not to agree with it. Here it's not very much agreed with. But first some history. Two years after seizing power, Il Duce went to Sicily. He was a fine orator — perhaps the best in the 20th century. He came from the workers and had had relations with the socialists at the beginning of his political career. He picked up a smattering of knowledge, learned to use the phraseology, and knew what to talk about and what to offer the people.

"Cesare Mori organized the dictator's security during the visit to Sicily. After Il Duce's triumph in Palermo, he was named prefect of the Sicilian capital. During the ceremonial banquet, Mussolini turned to Mori: 'I would like to hear some Albanian tunes.' Not far from Palermo was the Piana dei Greci commune. There lived Albanians who had fled from the Turks. Their songs and dances were striking and strange, and we Sicilians are a strange breed. We mingled with the Greeks and the Arabs, and we love everything strange. Since Il Duce's wish was expressed suddenly, Mori of course could not organize security on the spot, and it was necessary without delay. Mussolini was as impatient as a woman. Mori went to Piana and called the mayor, Don Cuccio. 'You answer for order and security.' Don Cuccio was the head of the Mafia in Piana. This was known to the initiated, and of course to the police ace Cesare Mori. 'I wish to greet the commune residents, true sons of the new Italy,' said Il Duce. Mori pushed Don Cuccio up to Mussolini's car: 'Sit next to him.' Don Cuccio blinked at the photographers, laid his hand on the dictator's shoulder, and said, 'Duce, as long as I am beside you, not a single hair will fall from your head — "leader of the people" and my friend. Italy is yours, Piana is mine.'

"A few weeks later, Don Cuccio arrived in Rome. He wanted a reward from Il Duce for the tour of Piana. The dictator's office, however, refused him a meeting with Mussolini. Don Cuccio pulled his hat down over his eyes and went to the harbor. He was not used to being insulted. He was going to return to Palermo and decide what to do next.

"Cesare Mori was waiting for him at the gangplank.

'My dear friend, Il Duce was misled,' said the policeman. 'He did not realize that it was you. You identified yourself too lightly, giving only your name and not your title. They aren't used to that at the office. Let's go, Il Duce is waiting for you.'

"The prefect's monstrous Lincoln took Don Cuccio, beaming with pleasure, not to Il Duce's palace, but to jail."

"What does this mean?"

"Let us take everything in order. What is the Mafia? Not only narcotics, after all, not only kidnappings, casinos, corruption, shootings, blackmail, and getting into big politics through the back way. It is also the taxes which Sicilian latifundists wanted to get from the peasants for the land they rented. Supplementary taxes, outside of government control. We have a lot of land and a lot of peasants. And all the land belonged to the latifundists. The people were starving; incidentally, that is why they fled abroad, not to join Cosa Nostre. And so the Mafia collected these illegal taxes from the peasants in Sicily on behalf of the latifundists living in Rome, and pocketed a portion of the money for their services and risks. Mussolini was not happy with this. He wanted all the money in his government safes. Is this what all the fascists wanted?"

"Cesare Mori began to make arrests among 'peasant Mafiosi.' He began from the bottom, notice, and that explains a lot. In all the little towns of Sicily hundreds of Mafiosi were arrested. They were chained together and sent to a concentration camp on the island of Lipari. Prefect Mori traveled around Sicily and personally directed the arrests. He disappeared from Palermo for five days and returned from Rome with a law introducing the death penalty. He made arrangements to employ medieval tortures during interrogations of rank-and-file Mafiosi: electric shock, tearing out fingernails, burning the soles of their feet. Mori got what he wanted: the Mafia's holiest of holies, the 'law of silence,' cracked. The rank-and-file Mafiosi, unable to withstand the tortures, began to tell everything they knew.

"Mussolini gave a speech in parliament: 'Thanks to the merciless scalpel of Cesare Mori, I have done away with the Mafia!' Soon Cesare Mori became practically the national hero of Italy.

"And then he went too far. He arrested the chiefs of the Mafia, Don Vitone and Don Calo. And then he went after several veteran fascists, to whom connections from the Mafia led. He jailed a member of parliament, an old friend of the fascist 'movement,' Cuccio, several mafia lawyers and doctors, who operated on anonymous patients pierced with nine-caliber bullets. And on the day that Cesare Mori, during a speech at a literary club in Rome (for he was beginning to write — that policeman's passion), exultantly announced that he had ferreted out the secret staff of the 'high' Mafia, an aide whispered to the prefect that he was urgently wanted on the telephone. Mori heard the request of the Deputy Minister of Internal Affairs, and returned to

the hall only to say, 'Friends, I have urgent business with the Minister. Till tomorrow.' But 'tomorrow' never came: Cesare Mori got the axe. He lost all his power and belatedly understood the truth — he had overplayed his hand. A month after his ouster, the entire police and court apparatus in Sicily was purged. Rome explained it as follows: 'The Mafia has been rooted out. We have entered a period of calm. Emergency measures are no longer necessary.'

"In fact, everything was at once simpler and more complicated: the Mafia had won, won in its usual, long-drawn-out method. A chain of connections had gone to work, i.e., the foundation of total corruption. The history of Mafia penetration into the blackshirt 'movement' went back to before the victory of Mussolini, when the young fascist, having buried the leftist intelligentsia member, turned for help to 'the godfathers.' Only they could reliably harbor you and provide alibis; on orders from the old man, any shady mafioso is prepared to take on someone else's guilt. For all its secretive monolithism, the Mafia still has names: the fascist had been harbored by Don Calo, the very same Don Calo whom the naive Cesare Mori called to account on the very eve of his scandalous and inglorious release from his duties.

"Don Calo was released, naturally, a few days after the dismissal of Mori.

"Moreover, Don Calo's rival, the recognized 'boss' Don Vitone, was thrown into a damp cell. They made the old man die, crowning Don Calo, friend of fascism, the new 'boss' of Sicily."

The Mafia and fascism: the U.S.

... I drove along a broad highway through a valley. Hills loomed in the distance — dark blue, jagged, mysterious. The highway was empty. Not a soul was there, just my little Fiat ...

"All Sicily slips right by," I thought, remembering how three years before I had cut across Italy from West to East, to Yugoslavia, on an identical, or even better, highway. Going 130 kilometers per hour, there's not a moment to look around, only in front. Tunnels, flooded with sharp yellow light, dozens of tunnels — and no Italy. The highway distances the countryside and is only good for speed as an end in itself. Stop! (...)

... I pulled into the right lane and went off onto a "municipal" road, small, narrow, bumpy. It brought me into the hills, into the quiet, toward the "godfathers," into the center of unpeopled, hot, and secretive Sicily.

... I had already had for a long time some materials in my journals about one of the leaders of the American Mafia, Vito Genovese. The Italian Mafiosi are unostentatious, good-natured, quiet — real provincials in button-up shoes and shirts with no collars. They are transformed at night when, glancing

at the second hand, they wait for a shot — their people are out dealing with a rebel who got the idea of living by laws other than the unwritten charter of the secret Sicilian order.

When Vito Genovese went to the New World, he was a low-level Mafioso. The lowest of the low, for he was born not in Sicily but in Naples — the “city of petty thieves,” as one gentleman put it to me in Palermo. He sat at a table in an expensive cafe, in his dusty boots with bare legs, drank a Napoleon (fabulously expensive here) and with pleasure chatted with me in good English.

Genovese was tried five times: for murder of his rivals, selling weapons, and running secret houses of prostitution. Five times he was acquitted for “insufficient evidence” — the law of silence in Cosa Nostre is identical to the Mafia law in Sicily, with the difference that for violation of the law in Brooklyn they shoot you with a machine gun, and in Sicily, by a single shot from an old carbine.

This cascade of acquittals in cases that seemed clear-cut to everyone (prison for life or the electric chair) helped Genovese become one of the leaders of Cosa Nostre. He ran prostitution, organized large-scale blackmail in which the payments from the targeted people amounted to hundreds of thousands of dollars, sold opium. It was he who first established the latter business on a broad basis. But he tied that business together with the international politics of Charles Luciano, the king of narcotics.

In 1936, Charles Luciano was sentenced to thirty years.

Vito Genovese, however, disappeared. He turned up in Sicily, in a rather striking fashion: in Mussolini’s headquarters. He opened his shabby briefcase, dumped out \$300,000 and said to the clerk receiving him:

“I would like the great Duce to know that his humble compatriot wants to build a new building for the party. I think that this will show my devotion to fascist Italy more than the words of various blabbermouths.”

Il Duce heard about that. He carefully studied the “godfather’s” dossier, for he knew “who was who” in the Mafia world on which he had so ceremoniously declared war and to whose destruction he was passionately calling the nation. He was destroying the small fry; he didn’t touch the strong men; indeed, he protected them. Il Duce was thinking about the future.

“Genovese,” he said, when he summoned the Mafioso several years later, “in America, in that land of corrupt plutocrats and financial bigwigs, a certain Carlo Tresca — a Marxist and a scoundrel — slandered me and the entire fascist movement, that is the movement of a nation, which acts for freedom and peace, against international bolshevism and greedy imperialism. I want you to have your say in this regard, Genovese.”

Don Vito had his say: Carlo Tresca was cut down by

three rounds from a tommy-gun. His rotting corpse was found in the slums of old Manhattan.

When this was reported in the newspapers, Mussolini invited Genovese over late at night and offered the Mafioso a goblet of champagne.

“You are a true patriot of the new Italy,” said Il Duce, “fascism will not forget your devotion.”

And what about Luciano, the “king of narcotics”?

In 1942, this prisoner was brought to a safehouse of American intelligence, the OSS (predecessor to the CIA — ed.). Seven days of talks took place. Then Luciano, with 24 years left on his term, was settled in a quiet seaside cottage not far from New York. From there he was transferred to Africa. He made his own way to Sicily, and there began his work as the OSS station chief. Besides intelligence, he had a thought for business: it was he who sold his Sicilian Mafiosi friends huge quantities of American weapons — for “the struggle against fascism,” of course, to the tune of millions of dollars. These weapons of course came nowhere near the hands of a single leftist partisan. And when the Allies landed in Sicily, the first visitors to the American governor of the island, Colonel Poletti, were two friends: Genovese and Luciano — one the American intelligence *resident*, the other the friend of Il Duce.

Whom were they working for? Themselves. If fascism won, Genovese had access to Il Duce. If the allies won, Luciano would remain crowned OSS station chief.

How the Mafia operates

The structure of the Mafia, born in Sicily, reliably guarantees the security of the criminals, the foredoom of the victims, and the continuity of the “work.”

The main organization is the “family.” This kind of family unites one, or sometimes two Sicilian villages. Who are the members of this family? Fathers, sons, brothers, (and sisters, of course!), cousins, brothers-in-law — try to break this kind of “family support,” when a careless word endangers not just anybody, but a son or a brother! It would not be forgiven, and the “law of silence” is inversely proportionate to the “law of revenge.” Cosa Nostre was set up according to the same family principle, when the first Sicilian emigrants came to the New World 100 years ago — illiterate peasants who didn’t know the language and had no work, but knew how to shoot on target, keep quiet, and be grateful to the grave to those who gave their children bread.

Several families are united in a “*coscia*,” which means a “leg.” The family principle holds here as well. The “legs” make up “associations,” which have control over a branch of industry or business; they collect “taxes” from trade unions. The “associations” comprise “*Onorata Societa*,” i.e. the Mafia.

The heads of the family are the “*capo*” (in Europe)

or "boss" (in the U.S.). In case of his demise, there is a "second boss," But the "intellect," an educated man, usually a lawyer, answers only to the "boss." He is the "adviser." The "lieutenants" are reserved for the "second boss." They don't know either the "boss" or the "adviser." "Lieutenants" command "soldiers." It is these "soldiers" who carry out the leadership's orders, which they get from the "lieutenants." It is all just like in intelligence: the footsoldier knows nothing about what the "boss" is thinking. The orders always come through the "second boss," so that the continuous chain is practically impossible to break. (There are also "mercenaries." These include "non-Italians." They are hired as couriers, who take narcotics across borders; and in cases where there is a very complicated operation of a political nature, people like (James Earl) Ray or (Jack) Ruby are hired.)

The main tasks of the Mafia are the corruption of the police and state apparatus; the establishment of influence on "key" people in business, banking, the airlines, and ports. In the name of this goal all means are permitted: blackmail, kidnapping, violence, murder, and control over zones of influence. The Mafia's activity is sharply divided into legal and illegal: the first includes Mafia-owned restaurants, docks, airports, pornography, and the trade unions; the second covers casinos, prostitution, and narcotics trade.

The Italian language is not sufficient for proper conspiring. Even Sicilian dialect won't do.

Most members of the "family" now speak in slang. Two men are sitting in a restaurant. One nods to a man in the doorway and says "the artichoke." His nickname? No. This means "chief of a group of gangsters." Someone who has been done away with is "wiped out." A woman who has been liquidated is "the Mother superior"; narcotics are "ashes"; gold dust is "garbage"; an unarmed man is "empty"; a policeman on leave is "a Cairo rooster"; a policeman on patrol is "a rooster with a feather." See if you can understand: "the Cairo rooster has been wiped out", or "the Mother Superior had a lot of ashes" ...

One example of how the Mafia can conceal the names of criminals who have strewn their path with corpses is "the Palermo war." It began in 1950, when a new land reform was decreed in Italy limiting the size of latifundia. This reform was carried out only because the left forces in Italy were able to pressure the government so much that to refuse to satisfy the demands of the peasantry might cause the collapse of the government. The Mafia began to develop a strategy — new conditions dictate new methods. An exchange of views between Doctor Navarro, the Mafia chief in northwest Sicily who had control over all the Palermo ports, and his younger colleagues ended in a fight. Principles were forgotten, and a power struggle began. The younger wing of the Mafia struck a blow: Carmelo Napoli, the old Mafioso who had maintained

ties between the criminals and the municipal authorities, received a package. When his bodyguard opened the plywood box, there lay the head of one of Don Carmelo's favorite German shepherds. This is how the death sentence is announced to an enemy in the Mafia.

Carmelo Napoli immediately took steps. He knew what to do, remembering the lessons of his old teacher, "the first monarch of the Mafia," Don Vito Casio Ferro. It is worth telling about this person in more detail.

When Vito Casio was put on trial for contraband, he laughed and said to the prosecutors:

"Respected signori, you will never be able to prove that I participated in the crimes committed by my people and myself. There were plenty of them, I assure you. But you will never find evidence or witnesses. I promise you that. And why are you charging me with smuggling, anyway? After all, I didn't do any smuggling. That's too petty for me."

He of course didn't mention that he didn't need petty smuggling. Not he, the "monarch of the Mafia." He had built his own fleet, with 50 boats of various tonnages. This was an industry, not smuggling.

Already at the beginning of the century, his people had settled in New York. The men of Cosa Nostre did not take a single serious step without consulting "the godfather" in Sicily — the devout and quiet Don Vito, dressed like an average peasant.

At the start of the First World War, he set up special groups of Mafiosi, armed and ready for conducting special operations. Mafiosi units formally fought with the Allies, they were such patriots! And of course they robbed the supply houses, captured trains, and dealt with the recalcitrant by terror. The war ended, but the power of the Mafia would remain a long time.

It was just at this time that Don Vito Casio decided to get the Mafia into the state power organs. Hundreds of Mafiosi — with the sanction of their "lieutenants," and they on orders from the "assistants to the capo" — offered themselves to the police as paid informers. In fact, they were assigned to guide the police, if necessary, on a false road.

The next stage was to get Mafiosi recruited into the Carabinieri, the preserver of order by day and violator of it by night.

The third stage was to run candidates for parliament. This started in Palermo and ended up in Rome.

Germination was the most consistent and reliable method. Mussolini was defeated, but Don Vito Casio's people remained. Those who had to depart due to compromising ties to the fascist regime gave way to "oppositionists," prepared years beforehand by the Mafia. The "advisers" thought of how to lay in reserves. Not for nothing did they obtain fabulous sums of money, since the Mafia doesn't pay for trifles. The dummy with a pistol who puts holes in the enemy gets a thousand. The guy who thinks up whom and how

to kill gets a million. That's why they say: shoot, don't think.

Carmelo Napoli informed his plants about the package. The police put his house under constant surveillance. Two bodyguards tripled the protection. At every whisper they reached for their weapons. At night, the house was guarded by five men. Three days, then four, passed without any alarming signs.

Napoli was sure that his invisible enemies understood that there was no sense in taking a risk, since he didn't trust anybody. Connections determine everything.

A week later, however, Napoli was killed. They shot him up from a car stopped at an intersection. The signature of Cosa Nostre. Naturally no one was found. Apparently the younger Mafiosi managed to pay more to those who had previously eaten from Don Carmelo's hand, so that the police worked not for the old man, but against him. A change of masters, simple as that.

The next shot was Giuseppe Greco.

Then Galatolo was killed.

In a mere 10 days, seven men were killed in the struggle for power. (Seven people in 10 days! And not a trace. And here you have 30 witnesses in the Kennedy killing! Pure nonsense, compared with the available experience.)

Three young Mafia leaders came to the fore in the "Palermo War": Nicolò d'Alessandro, Nico Cottone, and Genco Russo.

The first killed was Cottone, then Alessandro. The only remaining "young Mafioso" was Genco Russo,

who taught "the king of narcotics," Luciano, but was Don Calò's guardian. He walked with his two friends in the same harness, on the way to money and power. He won one round. Everybody was convinced that his friends had been "wiped out" by the older men in revenge for the death of the "artichokes." The answer to the question of who planned the murder is still unknown. It seems to be that Cottone and Alessandro fell on Russo's orders. The struggle for power is a cruel thing, in which "former friendship" is a dry abstraction, meaningless sentiment. In the Mafia you are capable of killing anyone who threatens your interests. It isn't important who: a "90-pound weight" (big-wig) or an "ant" (young Mafioso). The punishment is the same — death. (It is worth noting that in "black work," the role of the hat is very important for the Mafiosi: if it's tipped to the right — someone's following me"; to the left — "I see you and I'm watching you"; tipped back — "I need help" — so it's safe to shoot, sell heroin, or stab safely.

... When I talked face to face in a little bar on the seacoast with an "old man" connected to the Mafia (so my New York friends said), a young man lolled in the doorway. His black hat was tipped to the left and he had a book in his hands. As I went out, I glanced at the title and the youth was holding the book upside down. Apparently he was a foot-soldier, illiterate, although he saw me all the time and was all the time watching me ...

Next issue: Luciano and the assassination of Italian oil-man Enrico Mattei.

Soviets link SALT to East-West trade

Brezhnev seeks end to 'negative elements' in U.S. Soviet policies

In a series of statements and authoritative media commentaries focusing on the Strategic Arms Limitation Treaty, Africa, and the Middle East, issued over the last two weeks, the leadership of the Soviet Union has branded the United States's post-Camp-David foreign policy — with its heavy Kissingeresque aroma — an intolerable threat to world peace and stability.

Specifically, the Soviets have charged that circles in the U.S. and Britain want to destroy the European-Soviet collaboration on expanding world trade and development. However, the Soviets have, at the same time, offered the U.S. a way out of the current policy crisis by stressing the existing potential for economic and political collaboration between the two countries — if the Kissinger-Brzezinski-directed provocative policies are junked.

The Soviet foreign circulation magazine *New Times*, in its current edition, makes the point. Commenting on an article by British General Sir John Hackett about the inevitability of World War III, author L. Sedin writes, "Certain British and NATO quarters evidently attach much importance to this dubious piece of writing, intended not only to justify but to give a new stimulus to the arms race. Leonid Brezhnev's visit to Bonn in May and the talks he had there opened new wide prospects for multiform peaceful cooperation between the two countries for decades ahead. It is perhaps precisely this that irks the NATO warmongers. They would like to induce the West European countries not to trade and cooperate, but to quarrel and arm."

SALT II: Soviets adopt linkage

The latest round of SALT negotiations ended Oct. 23, with little progress reported. While certain technical questions, including the longstanding dispute over deployment of the U.S. cruise missile and the Soviet backfire bomber, reportedly still have to be worked out, the Soviets are giving every indication that much broader political aspects of U.S.-USSR relations must be worked out before a SALT II agreement can be concluded.

In effect, the Soviets are responding to the obvious hardening in U.S. policy exemplified by President Carter's decision, announced on the eve of Secretary of State Vance's departure for the Moscow SALT talks last week, to replace Arms Control and Disarmament

Agency director Paul Warnke with a retired general, and the chorus of calls from Kissinger associates for an arms buildup, by establishing a "linkage" policy of their own.

In coverage of the SALT negotiations Oct. 23, West German television reported that Soviet Premier Leonid Brezhnev called for the elimination of all "negative elements" in U.S. policy toward the Soviet Union. An elaboration of what Brezhnev means by "negative elements" appeared in the Oct. 25 *Handelsblatt*, the West German financial daily. The paper's well-informed Moscow correspondent, Heinz Lathe, revealed that Brezhnev personally intervened into the SALT negotiations last weekend to inform Vance that "other fields of U.S. foreign policy" must be "clarified" before a new treaty can be successfully concluded.

Significantly, reported Lathe, Brezhnev specifically requested a clarification on the restrictions which have been imposed on U.S.-USSR trade by the Senate, largely through the impetus of Brzezinski. (Brzezinski it should be noted, worked closely with then Senator Walter Mondale in 1974 to get the Jackson-Vanik amendment — tying U.S. trade with the Soviets to Soviet emigration policy — enacted by Congress.

The Soviets, Lathe continued, have also indicated that they are fully prepared to offer U.S. industry a whopping \$10 billion worth of economic deals if extended most favored nation status, now precluded by the Jackson-Vanik amendment.

At the same time, the Soviet leadership has sharply underscored the fact that they do not intend to be deflected from their foreign and domestic policies by Brzezinski's implicit threats that SALT will only be concluded if the Soviets change course. Soviet Defense Minister D.F. Ustinov, in a major Oct. 14 speech in Yerevan, Armenia, warned, "There are some in the West who would not be averse to capitalizing on the USSR's aspirations for peace, hoping that we will agree to 'pay' for the preservation of detente with concessions on principled questions of our foreign and domestic policy. These are illusory calculations. The Soviet Union has never traded and will never trade with its principles. Our country does not intend to depart from its constructive course in foreign policy matters. We understand very well that this would only play into the hands of those who dream of derailing detente."

Africa and the Middle East

In addition to U.S. sabotage of better trade relations, the Soviets are also warning that U.S. policy in the Middle East and Africa must be sharply turned from its current course toward superpower confrontation.

In an authoritative commentary in *Pravda's* Oct. 22 weekly *Review of International Events*, Yuri Zhukov zeroed in on the transparent inconsistency between Vance's recent statement that SALT was "95 percent ready" on the one hand, and what, in reality, amounts to U.S. sabotage of the negotiations. In particular, Zhukov cited Carter's neutron bomb decision and the discussions at the NATO Nuclear Planning Group meeting in Brussels last week, attended by U.S. Defense Secretary Harold Brown, on the need to modernize NATO's theater nuclear forces.

Zhukov then went on to blast current U.S. policy in the Middle East, particularly U.S. support for the Israeli-backed Lebanese Falange, "who are going under the false flag of Lebanese Christians," as well as U.S. policy in southern Africa. Zhukov correctly terms Rhodesian Prime Minister's Ian Smith's trip to the U.S., fully backed by Henry Kissinger, as a violation of stated United Nations policy. The *Pravda* commentator also accused the U.S. of working in complicity with Britain and Canada to foist "illegal elections" on Namibia.

While joint efforts of the Arabs, Soviets and Western Europeans have temporarily succeeded in cooling down the volatile Middle East situation, Africa is on the verge of a continent-wide explosion, thanks to U.S. refusal to back a real peace plan for southern Africa.

The U.S. attitude is exemplified by its permissive reaction to the vicious military raids into the front-line states of Mozambique and Zambia launched by Smith on his way home from Washington meetings with Vance and UN Ambassador Andrew Young last weekend. Fifteen hundred men, women and children were killed by the Rhodesian raiders in the brutal attacks. Instead of condemning this slaughter outright, the Administration gave its de facto endorsement, saying only that the raids' "timing" was "objectionable."

The U.S. response drew immediate, angry rebukes from African leaders. In a press conference Oct. 23, Zambian President Kenneth Kaunda stated that "I stand amazed at the lukewarm condemnation of this wanton and dastardly attack on Zambia, a sovereign state, by the U.S. government and the British government." And the Organization of African Unity issued a similarly strong attack in a statement expressing its dismay over the weakening of Western resolve to get a just accord on the Namibia question.

— Barbara Dreyfuss

Europe revolts against U.S. confrontationism

"NATO is so fragile now that it would not survive two of these publicly fought confrontations," said Christian Potyka, military correspondent of the West German daily *Süddeutsche Zeitung*, last week. His published attack summarizes Western Europe's de facto state of revolt against the military policy being pursued by NATO Secretary General Luns and former Kissinger adjutant, Supreme NATO Commander Alexander Haig. No fewer than four NATO member countries have announced their opposition to the anti-Soviet, confrontationist drift of NATO policy: West Germany, Norway, Greece, and Turkey. They are receiving strong support from non-member France.

Potyka's remarks were prompted by West German Defense Minister Hans Apel's latest criticism of the conduct of this year's NATO "Autumn Reforger" maneuvers, which left 14 people dead and \$10 million in property damages. In an Oct. 21 interview in the *Frankfurter Rundschau*, Apel as good as warned that unless NATO policy is brought into line in short order with West Germany's policy of detente and expanded economic trade and development with the Soviet Union, the alliance may lose its strongest, most valued European partner.

Apel's remarks are news only to those American and British newspapers that have consistently blocked out West European protests since the beginning of the Reforger maneuvers in early September. Then, and since, the West German government with strong support from French President Giscard d'Estaing, has made absolutely clear that it will not tolerate a NATO military policy that is inconsistent with the thinking behind the May economic accords signed by Chancellor Schmidt and Soviet President Brezhnev and renewed in the Bremen Summit of European Community heads of state.

Christian Potyka summarized the sentiment behind the German protests in his column today, writing that "the real issue is the relation of the sovereign state of the Federal Republic of Germany to the inner core of NATO: Brussels headquarters."

Does Germany have an alternative?

Apel's Oct. 21 interview laid the matter squarely on the line, asking "whether there had ever been an alternative to the Federal Republic's membership in the Western Alliance." In the four days since that article appeared, the defense minister, who is fully supported by his long-time political confidante Chancellor Schmidt, has not let up one iota in his pressure on Secretary General Luns and Commander Haig.

On Oct. 23, Luns flew to Bonn to mollify Apel and possibly, to get Schmidt to repudiate his defense minister. Within 24 hours, Apel had informed Luns in blunt German slang that "Bonn will not give a blank check to the military," referring to Luns's complaints that German-imposed restrictions are making it difficult for NATO to adopt the neutron bomb as an operational tactical nuclear weapon. Earlier, at the NATO Nuclear Planning Group, Apel had cut short Luns's attempts to monopolize discussion of NATO's nuclear arsenal, telling him "that as a minister with governmental responsibility, I will not allow anyone here to censor me."

According to today's daily *Die Welt*, Apel has let it be known that West Germany will veto "the Anglo-American proposal for the successor to Luns, British NATO Ambassador Lord Killick." Apel's statements have the clear backing of the Social Democratic Party's parliamentary leader, Herbert Wehner, who insisted in a recent *Morgenpost* newspaper article that "disarmament is a primary national task" for Germany and that resolution of the SALT and MBFR talks "is of historical importance."

Coinciding with these German warnings, Turkey reduced NATO troops on its Soviet border in the interests of detente, and Greece decided not to reintegrate into full NATO membership.

Apel on NATO and detente

The following excerpts are from the article, published in the Oct. 21 edition of the West German daily Frankfurter Rundschau, in which West German Defense Minister Hans Apel publicly questioned West Germany's membership in NATO.

...Twenty-five years is a very short period of time in the history of a nation. And what is all the more astounding for me is just how little we people today either want to remember or can remember about the early 1950s. Our country then still lay in ashes and rubble, reconstruction had just begun. All the prisoners of war had not yet returned home. The partition of Germany was an open wound, and we all believed in more partitions in the period coming into view.

On the one hand, some people wanted to stop the menace against

us that came from the communists after they had seized power in Warsaw, Prague, or elsewhere through a Western defense alliance. They did not succeed in doing this. And their conviction, that Germany's reunification would be made possible through this, nevertheless proved itself to be false. The opposite occurred. Germany's partition was cemented, the Cold War became the determining element of the following decade.

Others considered this way to be dangerous. They wanted to preserve Germany's unity and avoid everything that would dry the ink on the division of our country and Europe and that would also threaten to create at the same time new sources for violent confrontations. Whether there was indeed a conceivable alternative to the BRD's membership in the Western alliance, could not be tested at any point in time. Our hindsight about political data, and about the

French Defense Minister Yvon Bourges has underscored Europe's refusal to be dragged into a war with the Soviet Union. Commenting on President Jimmy Carter's decision to build neutron bomb components, Bourges stated in an Oct. 22 *Le Monde* article that France's deterrent strategy is a war-avoidance policy based on massive strategic firepower in which the tactical nuclear weapon, the neutron bomb, has no part. "The neutron bomb is a peculiar weapon," Bourges said. "The studies which we are pursuing allow us to acquire knowledge related to this type of weapon, but we do not envisage making any in our armaments program because the French policy of deterrence is a strategic one."

Two days later, Norwegian Defense Minister Hansen followed Apel's example in directing his sharply worded protests at British Gen. Whitley, who recently criticized the Norwegian parliament's refusal to increase the nation's defense budget by the 3-percent figure agreed to among the NATO partners. Hansen publicly rebuked Whitley "for intervening into affairs that he doesn't understand anyway, and for intervening into relations between the government and parliament in Norway."

— James Cleary

general climate at that time, lets it appear to us today as certain that there never were paths for our country to take out of the polarization of the postwar period....No one can ignore these lessons from the past. He who wants to change something, must want detente policy...even the expansion of East-West trade belongs in with this connection...East-West trade is economically interesting, but its political dimension is much more decisive.

It is much more difficult to have the military sector open itself up to effective detente. The original causes for this are readily available: what exists due to soldiers and weapons is the expression of political mistrust. Reducing this step by step is the actual content of detente policy...the capability for defense and detente policy are still two sides of the same coin called "security policy." This policy cannot generally succeed when one nation tries to go it alone.

For Republic of Korea development

A first-hand report undoing some myths of U.S. Asia policy

Introduction

Relations between the United States and its long-time ward, the Republic of Korea, have been severely impaired over the last two years, shaken by the controversies surrounding the decision of the Carter Administration to withdraw U.S. ground troops from Korea and by the Korean influence-buying scandal on Capitol Hill. These controversies have tended to further polarize the debate over U.S.-Korean relations. While liberals of the McGovern stripe argue that South Korea is one of the "worst violators of human rights in the world," conservatives say that this is unimportant when compared to Korea's contribution to the defense of the "free world." Businessmen occasionally enter the debate, usually siding with the conservatives by presenting Korea as a model for economic growth — because "the trains run on time."

As is often the case with "left-versus-right" political debates, the reality of South Korea has remained largely hidden — deliberately obscured by some, honestly misunderstood by others. Given that future U.S. relations with South Korea will be important not just in their own right but in their impact on the future of the entire, highly volatile region of Northeast Asia, U.S. political and business leaders cannot afford to remain in blinders.

In this section

The Cold War myths of the 1950s, the politics and pseudopolitics of the Vietnam era, and now the omnipresent headlines about Korean influence-peddling in Washington have successively and cumulatively concealed the reality of South Korea, and with it a central piece of the entire Asian political map. That's the conclusion of correspondent Peter Ennis of the *Executive Intelligence Review's* Asia desk, who has just spent a week in the Republic of Korea investigating the situation there, and filed this report on his findings.

Korea's fight for independence

South Korea is battling for its full independence, and the entire country is mobilized to win. From the highest levels of the government to the young supervisors at the country's heavy industry sites, there is a grand vision of a modernized Korea, a Korea that has caught up with and surpassed today's advanced industrial countries, a Korea that, for the first time in the country's recent history, has the strength to determine its own future.

"Korea missed the chance to modernize one hundred years ago, so now we must quickly make up for all of that lost time." This is how one official in Seoul described the thinking behind Korea's remarkable economic growth, referring to the defeat of an earlier modernization movement in Korea that was allied with Japan's successful 1868 Meiji Restoration.

History is indeed alive in the minds of Koreans. An extremely nationalistic people, the South Koreans of today are bitter about a past that has seen them consistently made the pawns of rivalries involving the Asian and Western powers. Korea has been a weak country squeezed between three giants, China, Japan, and the Soviet Union, largely powerless to control events that affected it. In the absence of a successful modernization movement to make the country strong, Korea adopted the ideology of "*sadae chuui*," or "serving a powerful country."

But South Korea is now determined that *sadae chuui* will be no more, and modernization is still the key to the country's independence, just as it was a century ago. "We must be so strong that no one can kick us around anymore," one official said frankly.

Since a core group of military officers brought then-General Park Chung-hee to power in a 1961 military coup, South Korea's political leaders have defined their special responsibility as securing once and for all the level of economic development and national strength needed to ensure the country's independence. Over the last 15 years they have headed up a thorough reorganization of Korean society that has seen it grow from "little better than today's 'Fourth World' countries" in the words of one official, to a semi-industrialized country. Government officials now regularly speak of matching the development levels of

is independence

the European nations in the years ahead.

U.S. conservatives who praise Korea's economic successes should take note: the Korean method for development has been a classic *dirigist* economic system, in which a powerful bureaucracy sets national priorities through economic planning to create the conditions in which private business can flourish.

The drive for modernization in South Korea is unrelenting, and even a week-long stay in the country, including discussions with many government and private officials, provides convincing evidence that every significant economic and political decision is made with the goal of continued modernization in mind. This is the key to understanding the South Korea of today.

10 percent annual growth

Momentum has become a main engine in Korea's economic expansion. With an average 10 percent growth per year since 1961, Korea has made continued economic progress almost second nature. In particular, a high standard of performance has thus been established within the country's powerful bureaucracy that all officials must strive to meet.

The hustle and bustle of Korea more than confirms the impressive growth statistics. The heart of the country is the capital, Seoul, and construction sites are visible all over the city. Seoul is, for the most part, a very modern city, and houses some 7 million of Korea's 35 million people. However, it is not unusual to see ox-drawn carts side-by-side modern engineering equipment at Seoul's construction sites; no resource goes untapped in the drive for development.

All energy in the country is now directed toward the transition from light to heavy industry. The government has chosen machinery, chemicals, shipbuilding, and electronics as strategic industries to be built up.

Top-down efficiency, sometimes known in Korea as the "Fort Leavenworth" system, governs the implementation of economic policy. The government is actively promoting the formation of business groups similar to Japan's *zaibatsu*, to enable a more coordinated mobilization of the nation's industry. Companies that cooperate with the government's economic plans are extended credits from the 100-percent government-owned banking system.

Efficiency also characterizes Korea's "brute force" approach to construction engineering, which has become something of an international legend.

National security still uppermost

Korea's economic success has not greatly changed the largely passive attitude of its leaders to world affairs, however. In discussions with a number of government officials in Seoul it was clear that Korea is more concerned with finding a secure position in the world than with actively participating in or influencing international affairs. In Seoul the world is seen through Korean eyes; the dominant concern in Korea remains national security.

The Korean peninsula continues to be one of the most potentially explosive areas in the world, with over 1 million armed men faced off on either side of a thin demilitarized zone. Detente has meant little for the peninsula, since North Korea's bizarre leader Kim Il-sung has consistently refused to negotiate a reduction of tension between the two countries with any sincerity. The Korean War of 1950-53, with its savage destruction, is still fresh in the minds of the Korean people, and as long as there is no agreement to maintain peace on the peninsula, South Korea's highest priority remains the development and maintenance of armed forces able to deter the outbreak of a new war.

Signs of defense preparedness abound in the country. With a troop level of 600,000, South Korea sports the fifth largest army in the world. While military hardware is not easily visible throughout the country, students and workers are often seen wearing "army fatigues" to school and work as part of reserve corps training programs. Moreover, in the southern parts of the country, where vitally important heavy industry is concentrated, troops can often be seen at highway intersections, as security precautions against the kind of guerrilla incursions that have struck from the North in the past.

It is the fear of suffering the destruction of yet another war, not ideological hatred of the "Communist world," that has compelled South Korea to maintain a close defense relationship with the United States. The presence of U.S. troops in Korea has imposed a powerful stability on a situation otherwise made unstable by the xenophobia of North Korea's Kim.

Which way Washington?

South Korean leaders are both bitter and shocked by the Carter Administration's decision to withdraw U.S. ground troops from South Korea, and the apparent reduction in the U.S. defense posture in the region. They see U.S. policy in Asia increasingly oriented toward developing a "second front" military relationship with China, a policy, they argue, which will only bring increased tension and confrontation in the future. One official commented that while the power of

Japan, China, and the Soviet Union are all on the rise, the United States is leaving Asia. "The United States is absent-mindedly retreating," he said.

U.S. defense officials in Seoul also heatedly argue — privately — about the dangers of a U.S. withdrawal from Korea. For the U.S. troop withdrawal is taking place at precisely the time it is most important for them to stay, according to these officials. The South Korean economy will have matured in the next five to seven years to the point that sufficient depth in war-fighting capabilities will have been achieved to enable the South Koreans to deter the outbreak of a new war on their own. The North Koreans are well aware that the Southern economy is approaching this point, these officials say, increasing the likelihood of aggression from North Korea *before* that necessary degree of maturity in the Southern economy has been reached. A U.S. troop presence in Korea would surely deter such an attack, but the withdrawal announcement has given a crucial signal that America may choose to avoid involvement in a crisis.

With the view gaining ground in Seoul that the United States is an undependable ally, Korea has launched a crash domestic defense production program aimed at making the country "self-reliant" in the production of key military equipment. "Self-reliance" was the theme of this year's Armed Forces Day celebrations, held in Seoul Oct. 1, where the first guided missiles wholly designed and produced in Korea were put on display.

"Not anti-communist..."

South Korea's plans for self-reliant national security go far beyond military preparations vis-à-vis North Korea, however. Contrary to the usual ideological myths, South Korea's security strategy aims to establish diplomatic relations with China and the Soviet Union. Officially dubbing its plan the "Foreign Policy of Peace," the government now says that it is willing to engage in economic and other forms of cooperation with any country, regardless of its economic or political systems. "South Koreans are not anti-communist, they are anti-North Korean," one informed observer of Korean affairs commented.

The improvement of relations with China and the Soviets is particularly important to the South Koreans, for two main reasons. As the two Asian powers that border the Korean peninsula, China and the USSR have historically had a strong interest in what occurs there. As of now, neither power recognizes South Korea as an independent state; such recognition would greatly enhance South Korean security. Moreover, both China and the Soviet Union have, to different degrees, the ability to moderate the policies of Kim Il-sung.

Thus far no dramatic breakthrough has occurred in this direction. But the Soviet Union has taken limited action to indicate an interest in contact with South Korea. The Soviets are widely believed to favor a

"Germany solution" to the Korean conflict, while China, although opposed to a war on the peninsula, has consistently refused to have any contact with the South.

The most forward-looking of Korea's policy planners see the long-term stability of North Asia as based on economic cooperation. They point out that China is expanding its economic relations with Japan, and that the Soviet Union is eager to develop Siberia. In their view, North Korea's refusal to deal peacefully with the South remains the biggest source of instability in the region.

"Human rights" in Korea

President Park Chung-hee is the unchallenged ruler of South Korea, and he operates through the country's powerful bureaucracy. A leader with little charisma, Park has often been compared to Confucian leaders of old, ruling with the prestige of a father among his family.

People in Seoul not necessarily sympathetic to the government nevertheless say that Park's honesty is beyond question, and that he is a masterful technician, the architect of the "Fort Leavenworth" system, who views corruption as inherently inefficient. A visitor to Korea can't help but notice that every office in the country apparently has a picture of Park on the wall, which seems to be as much to "remind" the occupant to perform his job well as for anything else. The question observers of Korea most often ask is whether Park's rule has been too tough.

The country seems to function like many "open" authoritarian regimes (as opposed to closed societies like China, Cambodia, or North Korea), with wide-ranging freedoms for the press, politicians, and the public as long as President Park's rule is not questioned. Aside from a midnight curfew, there is complete freedom of movement in the country, including choice of home and employment. Although the government has tremendous influence over the country's press, the censorship process is largely a tug of war. In recent months, for example, an unfolding story of widespread government corruption in housing allocation has continuously appeared as front page news and the government has shown little ability to squash it. The scandal has run its own course, and even touched officials within the President's Blue House, promptly leading to their dismissal.

Park rules under a constitution rewritten in 1972 giving him a very broad range of powers. Under its provisions, he is elected by a National Assembly, a significant proportion of which he himself appoints. Moreover, he is allowed an unlimited number of six-year terms. This power is backed up by several "emergency decrees" prohibiting criticism of the government.

The new constitution was ushered in shortly after the last open election, in 1971, in which Park barely

beat his challenger. But government officials ask the question, "Parliamentary government for whom?" adding that Korea's stormy postwar history has shown many times that a functioning parliamentary system does not in the least guarantee the "human rights" of the population — especially rights to economic development and social stability. They explain the tightening of Park's rule as necessary to ensure that Korea's mobilization for development runs smoothly.

High-level government officials in Seoul talk quite openly about the "human rights" situation in Korea, anxious to present "their side of the story" following

the heavy attacks on the Park government from liberal Democrats in Washington.

One official, asked what he considered the most pressing human rights problem in the country, replied that the low-wage, labor-intensive sectors still widespread in the Korean economy are most in need of change. "We realize this situation cannot stay the same. The more industry and prosperity we have, the more people will want to have. If we do not satisfy these wants, unions and strikes will inevitably break out. Then what are we going to do then — put all of our workers in jail?"

—Peter Ennis

A visit to Pohang Steel

Pohang Iron and Steel Corporation (POSCO), the government-owned integrated iron and steel making complex, is the pride and joy of Korea's drive for modernization. Located in the city of Pohang, which is known as the "Pittsburgh of Korea," POSCO was founded in 1968 with the aid of Japan, after the World Bank refused to finance the project.

Construction of the 2,000-acre complex began in 1971, and output of crude steel in the first year of operation, 1973, was 1.3 million tons. Since that time, expansion projects raised capacity to 2.6 million tons in 1976 and now to 5.5 million tons, making POSCO one of the largest integrated facilities in the world.

The growth of POSCO has caused a boom in the city of Pohang, and shows the type of "city-building" the Koreans regularly do. When the company was founded in 1968, Pohang had a population of only 60,000. But since that time the government has aided the establishment of some 50 additional facilities around the city, all of which feed into POSCO operations. As a result, Pohang has blossomed into a middle-sized city of 260,000.

Tours of the POSCO facilities are quite extensive, and young company officials bubbling with enthusiasm for modernization serve as the guides. A visitor is taken first to the main briefing room, where a scale model of the POSCO complex is used to introduce him to the production process. Heavy emphasis is placed on explaining the high level of technology used at POSCO. One guide asked a visitor about the technologies used in American steel factories, and could not prevent himself from adding, "I understand they are all obsolete."

While traveling to other parts of the complex, construction projects to expand capacity can be seen all around. At the entrance to each construction site there is a large billboard reporting the number of days before completion. The target date at one particular site seemed overly optimistic, as work had barely begun, but a guide dismissed the doubts of a visitor. "We will complete it on time. We have to."

POSCO presently operates some 26 major facilities, grouped mainly into iron-making and steel-making facilities. The finished products include rolled sheets, galvanized iron sheets, plates, and so on, and are both exported and used domestically. Company officials proudly say that POSCO has generated a profit in all four of its full years of operation, despite the

downturn in world demand for steel. They also emphasize that virtually the entirety of the approximately \$160 million in profit has been immediately reinvested for capacity expansion.

Heavy emphasis by tour guides is also placed on the "welfare facilities" provided for POSCO's 10,000 employees. Due to a shortage of housing in the city, housing has been built for many of the employees right on the complex, complete with recreation facilities, shopping centers, and schools. The company is even starting a program to help employees buy motorcycles, to replace bicycles as their principal source of transportation.

The entire POSCO complex operates on three eight-hour shifts, making POSCO one of the few iron and steel plants in the world to have a 100 percent capacity utilization rate.

One of the most distinctive things about POSCO is the regular presence of busloads of students. Explained one guide: "We have a program to bring students from around the country for a tour. We bring them here to change their minds. Most of them go to technical high schools, but even so their conception of industry is very small-scale. When they come here they can be proud of what Korea has done, and they see what we can do in the future."

'We are investing in the human being'

Dr. J.I. Kim, the director of the Economic Planning Bureau of the Korean Economic Planning Board, reviewed some of his government's development plans in this interview with Executive Intelligence Review correspondent Ennis.

Q: Would you outline the goals of your economic planning for the next 10 to 15 years?

A: Well, first of all, we want our people to have plenty of employment opportunities, as we expect 6 million working-age people to enter the job market in the next

EXCLUSIVE INTERVIEW

14 years. We have to create at least 6 million jobs in that period. Then we want to have very stable prices, so that whatever purpose we pursue, it should avoid inflating the money supply, so that we maintain price stability, first of all, at least as stable as our trading partners and eventually more stable than them. This is because price stability is most essential for improvement of income distribution. Poor people eventually lose most through inflation, whereas people with large assets can find reasonable hedges against inflation. Then, we want to upgrade the educational achievements and levels of skill, and eventually the expected lifetime income of our young people. So we are investing first of all to improve their nutritional level, their health level and educational attainment and vocational training. So that by the 1990s and the 21st century our children will obtain knowledge and experience similar to what the rich countries enjoy already.

We approach these problems by investing in the human being, essentially — health, nutrition and education, and vocational training. Then, once we have upgraded the human quality, we want to engage in productive and meaningful activity through adequate and satisfying employment opportunities.

Then, the next goal would be attaining the technological level of the rich countries of today. For this purpose, we are encouraging our companies to increase their investment in development activities, research activities, and to internationalize their research activities. That is, not only do research in Korea, but with other countries. Also, let foreigners come here and earn their pay by teaching us and licensing their knowledge to us, giving us the benefit of technical extension service. All of these are commercial activities so we do not have much to do with our companies' decision to invest in licensing and development of new technology and new products, but we encourage them to learn from the experience of the United States and Western Europe.

Eventually we want to have our workers obtain the

level of income of the rich countries of today, and to attain good labor-management relations, where they have a reasonable degree of participation, as is assured in West Germany and Switzerland today.

Technology and living standards

Q: When you say you want meaningful work for your people, do you mean by that, the higher the technology involved in the job, the more meaningful the activity?

A: Yes, this has many dimensions. It concerns working conditions, the degree of participation in managerial decisions, the quality of product produced, and the future prospects of their line of activities. It would be very discouraging to work in a dead-end job. So we want our people to move into occupations where their lifetime expected income is higher. And, since Korea is moving through many stages of historical development in a compressed time, they should be willing to change their job once, twice, or even three times, during the working age of say, thirty years. You cannot expect the garment worker of today to remain the same garment worker for the next thirty years. Today our income level in dollars is only one-tenth that of the United States, so he should move from garment to something else, with higher skill, more sophisticated activity, leaving the simpler activities to other people, in India, Bangladesh or Pakistan, where the stage of development is still very early in its progress and they need to move into the activities where we are engaged in large numbers. So just as American workers will move from very bad working conditions in a rubber or shoe factory, where no one really wants to work for a lifetime, they move, say, into computer manufacturing or computer programming.

As our income grows, the expectations of our young people get higher, and they will want to get into some activity where the working conditions are better and the long-term prospects are better. So, we will gradually lose workers in occupations where the working conditions are not so good. It's already happening here.

Q: It has often been said that Korea has been successful economically because it has depended on a low-wage, labor-intensive system. But isn't it true that the goal of moving into higher technologies and higher skilled economy has been the goal since real economic planning began in Korea in the early 1960s?

A: I should say that in the last 16 years we have created 7 million new jobs, and we have 14 million people employed now. When we wanted to create 7 million jobs, with no capital resources to invest in from our own savings, we had to economize savings, and had to spread the investment resources to a large number of people. So it is not really by choice, but by

necessity that we have moved into the simpler activities first. We didn't have high technologies, high skill levels to enter into machinery or industrial plant manufacturing. That was beyond our capability and beyond our resources. So we did what we could, mobilizing what we could, and what we have done is the only thing that could have been done with our limited resources.

But since we have increased our income, we now save more and can invest more, so we can do something more than we could have 10 years ago. We don't want heavy industry for its own sake. We have restrained ourselves from getting into prestigious activities, which many developing countries like to get into. We were very slow in building our steel mill. But when we built it, from the first year of operation it generated sizable profit, and the capacity utilization rate is around 100 percent, when around the world the average utilization rate is around 60 percent. We wait until we can do it really well, and then do it without too much delay and with reasonable efficiency.

We consider countries like Switzerland, Belgium, Netherlands, Norway, to be guiding us in the direction in which we can move. Heavy industry is a very broad definition. We want to get into something like Switzerland is doing very well, machinery. We are in a very similar situation. We had a bidding for an electric power plant a while ago, quite a big one, and a Swiss company competed with the U.S., Japan and West Germany, and it was the winner. They are a small country, but they can be the best in the world, in certain specialized activities. We want to find that little corner in the world production activities that we can specialize in, and become the best producer in the world. That is the way a small country obtains a high standard of living.

Japan is very different from us because they are so big; they can afford to do many different lines of business, and they don't have to specialize in a few lines. The Japanese economy is more than 25 times our Gross National Product, so we can never do all the things the Japanese do. We have to select a few, and import the rest.

The U.S. model

Q: Do you see the future of the world economy going in the direction Korea has gone? That is, the developing countries developing light industry, and then moving toward higher skill levels?

A: Yes, certainly. The process of development is really the process of restructuring, which means constantly changing the structure of your economy, so that workers continue to move into more satisfying and higher paying occupations. It goes from agriculture, to light industry, then to sophisticated industry, which assures a high quality of life to the workers.

I believe the greatness of the United States was built by businessmen constantly seeking new products, new

activities, and restructuring their operations instead of staying in one kind of activity for many decades. The spirit of restructuring is very much alive and should be encouraged by government policy everywhere in the world. I hope American businessmen understand that America did not become great by staying in one form of activity.

Q: Your use of the term restructuring is very similar to the Japanese term "knowledge intensification."

A: Yes, they have the same meaning.

'We will have no choice but to rely on nuclear'

Our correspondent discussed South Korea's long-term energy needs with Dr. Bong Suh Lee, Assistant Minister for Planning and Administration in the South Korean Ministry of Energy and Resources in Seoul.

Q: How do you plan to meet the large growth in energy demand expected in Korea over the next quarter-century?

A: Well, these days no one is planning to build more conventional oil-burning stations, except maybe the oil-producing countries. For countries like ours, which have to import almost all of the oil from abroad, it would be very foolish to plan on that. The power plant scheduled for completion in 1983 will probably be the last oil-burning station we build, and if we can help it, we are not going to depend on oil-burning types. If anything, in the hydrocarbon area, they will be coal burning. But when it comes to coal-burning, what we produce here in Korea domestically is anthracite coal, and all of this is used for house-heating purposes. And even for this purpose, we don't produce enough domestically. So we have to import coal, and if the fuel situation remains the way we think it will, we will have to import more as the years progress. Which means that if we want to use coal for electricity generation, again, we have to import 100 percent of the thermal coal from abroad. And as you know, although thermal coal is plentiful throughout the world, the transportation problem is very difficult. And also, you have to have land space here where you could have the power station and hinterland where you can store your reserve coal. Even more, you have to locate this near the coast line, because of the transportation and pollution problems. Although Korea happens to be a peninsula so we have more coastline than almost anybody else, when you actually examine our geography you find that we don't actually have that many available spots. So, although we would like to have thermal coal power stations as much as possible there we find definite physical limitations.

Then, what do you have left? Hydro capacity. We have some hydro resources here and of course we will try to maximize them. But up to now we have used about 50 percent of our hydro capacity, and if we maximize its utilization, perhaps we can double what we have at this moment. But the actual quantity is not too much. Right now, hydro supplies about 10 percent of our needs and our total demand of electricity by the year 2000 will be about 12 or 13 times what it is now. So you can imagine, by the year 2000 hydro can supply perhaps 1 percent, if that, of our energy needs.

Well, there is a huge gap, which will have to be filled with something. Naturally, the only alternative we have left is nuclear power. We have set out to see what our total demand is going to be, and then to see how we can meet that demand with the more conventional forms of energy supply systems, and the gap we will try to fill with nuclear power. In that kind of exercise, you will find we will have to have something close to 40 nuclear power stations by the year 2000. Whenever we say 40 units, then people get really surprised and ask how you can afford 40 units. And my answer is if our economy demands 40 power stations, then certainly we will be able to afford 40. It pays for itself. It is a matter of the general economy leading and power supply following.

As you know, our projection is that the economy will probably grow at a rate of 10 percent for the next 10 years or so and then slightly less than that, but the forecast is that the economy will certainly maintain the momentum of growth for the next 15 to 20 years. And if that is the case, certainly we will need a lot of power. And if we need a lot of power, we will have no choice but to rely on nuclear rather heavily. Our blueprint shows that perhaps something like 60 percent of power supply will have to be met by nuclear power, by the year 2000.

Korea and U.S. nuclear policy

Q: Have you pretty much dropped the idea of obtaining fast-breeder technology, which you tried to obtain in 1973?

A: Right now our position is not so much to develop nuclear technology ourselves. We are thinking we will leave that and development of fancy technology to somebody who can afford it. We will just buy it as it is developed, as we have done. We will also have to take into consideration people like President Carter who do not want to see mankind engaged in this kind of activity. So far our nuclear plan has been based mainly on the American technology, American machinery, and American supply of uranium. So, in order to keep our agreement with your government intact and in order to avoid disruptions in our energy

program, we think it is better for us if we go along with the American policy of nonproliferation.

Q: How many nuclear power plants do you have in operation at this time?

A: At present we have one plant in commercial operation, four plants are under construction, and two more are being bid on by international suppliers. We want the last of these seven in operation by 1986.

Q: Are you somewhat confused by the seeming lack of understanding in Washington that countries like yours have no choice but to move into nuclear power generation? U.S. policy does not seem to be in line with this.

A: I am neither confused nor bewildered by the American policy. But we certainly would like to present our position, namely that the U.S., with all kinds of energy alternatives, can afford to neglect nuclear and go to coal or oil if you would like to. But in our case, as I said before, we don't have a choice. Since energy is really the basic — well, the energy for industry and the economy as a whole — if you don't have sound and continuous supplies of energy resources, then you cannot very well plan your economy. When we say we *have* to have nuclear power stations, we really mean that. There are no other implications behind that. But we think the kind of policy America is pursuing these days is thinking behind the implications — that is, once you go into nuclear technology, then one of these days you are bound to develop a nuclear weapons system. Well I don't know if this is actually the case, that one really follows the other. It seems to me it really doesn't have to. You can take our position honestly, and right now you have very exact checking systems. As it is, we cannot move one bit of enriched uranium without being checked by your authorities. If you maintain this kind of checking system in the future, then I don't see why we should be so concerned about the technology being misused elsewhere. And again, if you extend that logic a little further, if we have enough uranium resources of our own, then we can stick to the more conventional kind of power generating system. As we know, world uranium supplies are limited, and countries like us don't even have limited reserves of uranium. Then, naturally, we will have to worry about how to maximize the use of the existing reserves of uranium. And there, we understand that the fast-breeder type reactor is very suitable. And if that is the case, then surely we are all for that. The world has always followed the latest and most up-to-date technology, and I don't see why we should have an exception in this field, particularly when it involves the very crucial energy problem.